The Pillsbury Company

1988 Annual Report

THE PILLSBURY COMPANY IS AN INTERNATIONAL FOOD AND RESTAURANT ORGANIZATION WITH AN ENVIABLE HISTORY OF GROWTH AND CONSUMER LOYALTY. BY MANUFACTURING AND MARKETING LEADING CONSUMER BRANDS AND OPERATING OR FRANCHISING FAST FOOD, CASUAL DINING AND FULL SERVICE RESTAURANTS, THE COMPANY CAN BE A PART OF NEARLY EVERY EATING OCCASION.

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FINANCIAL HIGHLIGHTS

For the Year:	Year Ended May 31 1988	1987	Increase (Decrease)
	(In millions, except return)		
Net Sales	**$6,191**	$6,128	1%
Net Earnings	**69**	182	(62)
Cash Dividends	**93**	83	12
New Investments	**382**	400	(4)
Return on Average Shareholders' Equity	**5.1%**	13.5%	(62)

Per Share:	Year Ended May 31 1988	1987	Increase (Decrease)
Net Earnings	**$ .81**	$ 2.10	(61)%
Cash Dividends	**1.09**	.965	13
Shareholders' Equity	**15.67**	16.00	(2)
Closing Price of Common Stock	**37½**	38¾	(3)

Excluding Unusual Items (a):

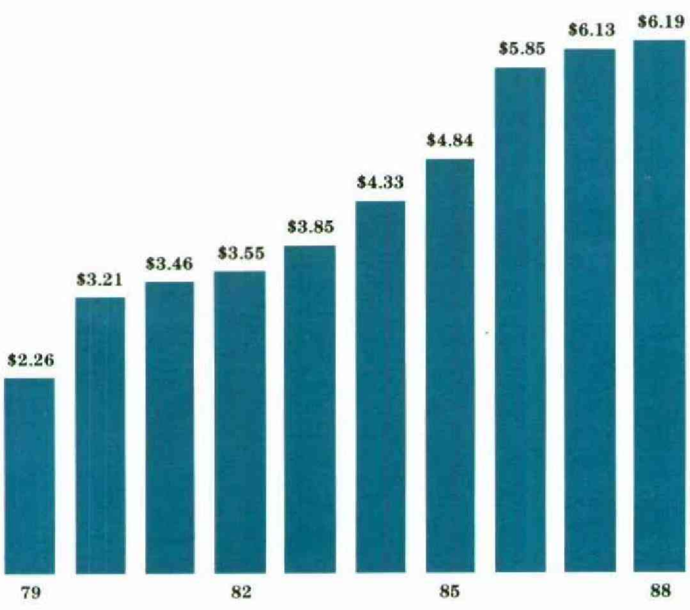
	1988	1987	Increase (Decrease)
Net Earnings (In millions)	**$ 210**	$ 194	8%
Net Earnings Per Share	**2.45**	2.24	9
Return on Average Shareholders' Equity	**15.5%**	14.4%	8

(a) Fiscal 1988:
Restructuring charge of $141 million, or $1.64 per share.

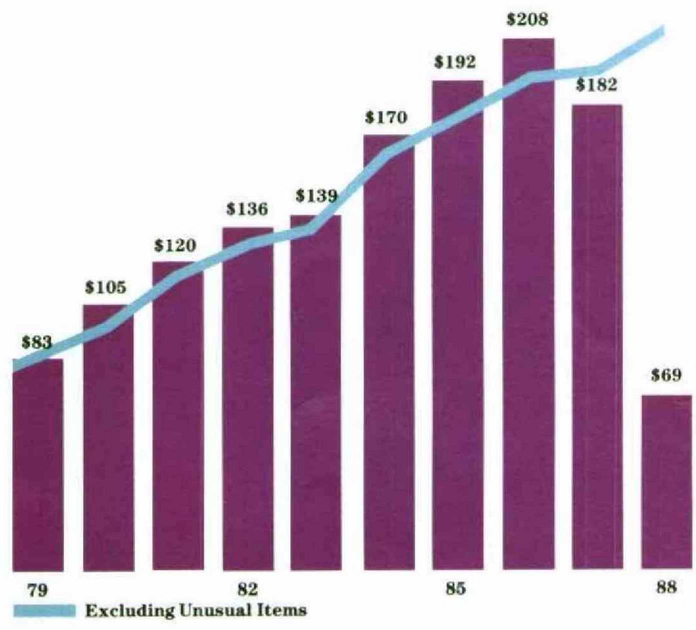
Fiscal 1987:
Restructuring charge of $22 million, or 25 cents per share, and a gain from asset sales of $10 million, or 11 cents per share.

(See page 23 for details.)

Net Sales
(Billions)



Net Earnings
(Millions)



TO OUR SHAREHOLDERS

Fiscal 1988 was a year of change and a year of challenge for The Pillsbury Company. It was a year in which we completed a major write-off to clear the deck of underperforming assets. But it was also a year in which we made significant decisions about our future direction and strategy. We emerged a leaner and less diversified company, and one with greater focus. It was a year we are all glad to have behind us.

A third-quarter restructuring charge of $141 million after-tax, or $1.64 per share, was recorded to withdraw from several developmental or marginal restaurant chains, the largest being Godfather's Pizza; weed out low-return units elsewhere in our restaurant business; consolidate a number of food manufacturing plants and reduce administrative expenses throughout the Company. We began the restructuring process late in Fiscal 1987 and recorded an after-tax charge of $22 million, or 25 cents per share, in that year. Together, these actions represented a historic effort to redirect the Company's management and investment focus in order to strengthen our position as a premier food company.

As a result, net earnings for Fiscal 1988 fell to $69 million, or 81 cents per share, from Fiscal 1987's $182 million, or $2.10 per share. However, excluding all unusual items, net earnings rose eight percent to $210 million and earnings per share were up nine percent to $2.45 per share, both of which were records for the Company. Sales rose one percent to $6.19 billion, continuing a 31-year record of consecutively higher sales.

In September, your Board of Directors increased the annual dividend by 13 percent to $1.09 per share from 96.5 cents paid in Fiscal 1987. This made Fiscal 1988 the 30th consecutive year that Pillsbury has paid increased dividends and the 60th year of uninterrupted dividend payments.

Importantly, we also ended the year in a strong financial position, with excellent cash flow and less long-term debt than a year earlier. Furthermore, the sale of assets included under Fiscal 1988's restructuring program will provide an additional $100 million in cash for reinvestment this year.

Thus, we are entering Fiscal 1989 with a commitment to build on the strengths of our basic businesses and with confidence that we can continue to enhance shareholder value as an independent company. We will be investing in our future with the highest level of capital spending in our history — approximately $340 million versus Fiscal 1988's $300 million — to improve our manufacturing efficiency and upgrade our restaurant facilities, particularly at Burger King. We also expect to be more active on the acquisition front in support of our existing food businesses and to expand our store ownership base in Burger King.

While restructuring allowed us to get out of businesses and properties that were not adequately profitable or were a distraction from our core efforts, the underlying performance of our core businesses was mixed in Fiscal 1988.

Foods posted a six percent gain in operating profit, excluding unusual items, on a similar increase in sales. Volume rose one percent. Refrigerated dough, ice cream, international and industrial foods all had an excellent year. Pizza, seafood and dessert mixes, however, had disappointing results. Steps have been taken to correct their performance and these businesses are now improving.

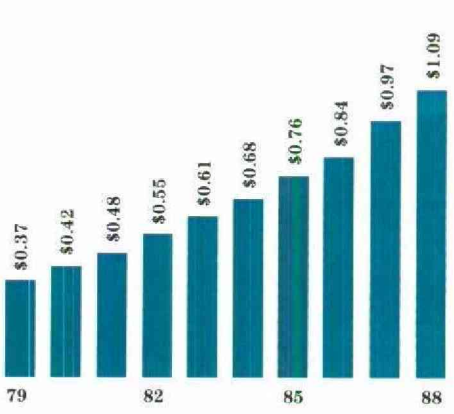
Several new products enhanced sales in Fiscal 1988. We broadened our microwave offerings to include a brownie mix and two new lines of frozen Green Giant vegetable combinations, and extended our microwave technology to Canada and Europe. Häagen-Dazs also added a chocolate and almond coated ice cream bar to its popular novelty line. This year, our first microwaveable refrigerated dessert — a cook-in-the-pan brownie — as well as microwave one serving vegetables and the industry's first soft-serve luxury ice cream make their debut.

So, as we continue to do what we did well in Fiscal 1988, and improve in those areas where we had problems, we are looking forward to an excellent year in Foods.

Restaurant operating profit declined eight percent in Fiscal 1988, excluding unusual items, on a five percent drop in sales. Distron, Burger King's distribution unit, lost customers and volume and each of our restaurant concepts reported lower average unit sales. Excluding Distron, Burger King reported a nine percent profit growth, but Steak and Ale and Bennigan's reported lower results.

Restoring sales vitality at the restaurant level is our top priority. To accomplish this, we will be investing

Cash Dividends Per Share



heavily this year to improve marketing and service levels, and to revitalize facilities. While the long-term benefits should be significant, the spending will result in lower Restaurant profits this year than we could otherwise expect.

On balance, we anticipate that Fiscal 1989 will be a much improved year for Pillsbury and one that will set the stage for a return to historical growth patterns.

Management and operational changes have been made to help implement our new focus. All of our businesses are under new, committed leadership.

As reported earlier, I was asked last February to return as Pillsbury's chief executive following the resignation of John M. Stafford. I agreed to serve until a successor was chosen. I am now pleased to announce that the Board of Directors has elected Philip L. Smith as the new Chairman, President and Chief Executive Officer of The Pillsbury Company, effective August 1. He is an exceptional executive, as the adjoining biography attests, and I am confident he will provide outstanding leadership for Pillsbury.

We are also pleased to welcome Dr. James J. Renier to our Board of Directors. Dr. Renier, President and Chief Executive Officer of Honeywell Inc., was elected to the Board in March.

We would like to thank our employees — and there are more than 100,000 around the globe — and our shareholders for their continued support during this period of challenge and change.

We cordially invite you to attend the Annual Meeting of The Pillsbury Company to be held at the Guthrie Theater in Minneapolis at 2:00 p.m. on Tuesday, September 13, 1988.

William H. Spoor

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

Philip L. Smith
Pillsbury's New Chairman

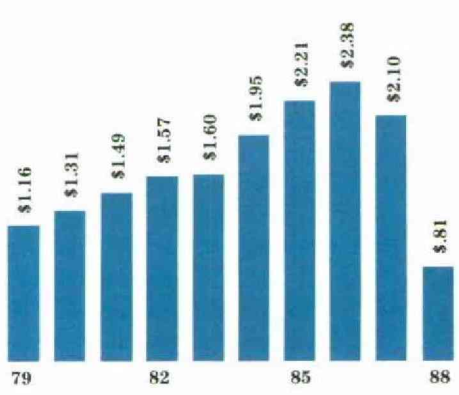
On July 22, 1988, Philip L. Smith, was elected Chairman, President and Chief Executive Officer of The Pillsbury Company, effective August 1. At age 54, he brings to the Company a long and proven record of leadership in the food industry.

Mr. Smith was Chairman, President and Chief Executive Officer of General Foods Corporation, where his career spanned 22 years. He was President and Chief Operating Officer of General Foods prior to its acquisition by the Philip Morris Companies in 1985, and he has since served that company as a director and more recently as vice chairman.

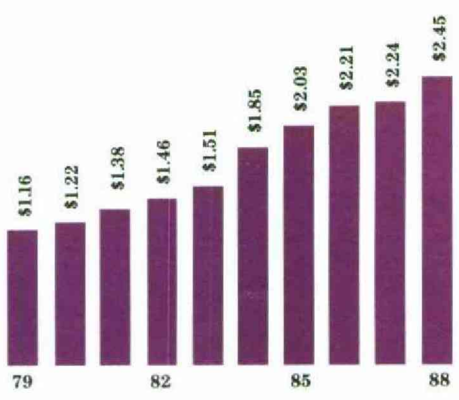
He has a background in advertising, is a former captain and pilot in the U.S. Marine Corps and holds bachelor and M.B.A. degrees from the University of Michigan. He is married and he and his wife, Nancy, have three grown children.

We are pleased to welcome a man of Phil's capabilities and integrity to The Pillsbury Company.

Earnings Per Share



Earnings Per Share
(Excluding Unusual Items)



IN FISCAL 1988, PILLSBURY TOOK A HISTORIC STEP TO STREAMLINE ITS OPERATIONS AND STRENGTHEN ITS CONSUMER FOODS AND RESTAURANT BUSINESSES. THE COMPANY ENTERS FISCAL 1989 LESS DIVERSIFIED, MORE FOCUSED, AND CONFIDENT IN ITS FUTURE.

FOODS

	Fiscal 1988	Fiscal 1987	Increase (Decrease)
Consumer volume	+ 1%	+ 6%	
Sales	$ 3.56 billion	$ 3.36 billion	6%
Operating profit	214.8 million	246.1 million	(13)
Profit excluding unusual items	280.5 million	264.6 million	6

After two years of exceptional growth, Pillsbury's Foods Group redefined its strategy in Fiscal 1988 to focus on strengthening its core businesses. It ended the year with a new management team committed to improved cost competitiveness, product superiority and consumer brand support.

To help implement that strategy, a $66 million restructuring charge was taken to exit five small product lines, close or consolidate six manufacturing facilities and reduce overhead costs. As a result, operating profit fell 13 percent.

Excluding unusual items, however, operating profit rose six percent on a similar increase in sales as excellent growth in international, refrigerated dough, ice cream and industrial foods offset declines in frozen pizza, seafood and dessert mixes. Consumer volume increased one percent.

Over the years, the Company has developed some of the nation's best known, most respected consumer brands — names like *Pillsbury, Green Giant, Totino's, Jeno's, Van de Kamp's* and *Häagen-Dazs*. By offering premium quality products which meet consumer needs over a variety of eating occasions, Pillsbury has been on the forefront of responding to changing demographic and economic factors affecting the entire food industry. The Company's leadership in microwave technology, for instance, has been a significant factor in reducing the meal preparation time for an increasing number of busy households.

Since people aren't eating more, only differently, food producers have sought to gain market share through line extensions, product proliferations and the creation of exotic new specialty items catering to the latest food fad or market niche. As a result, today's average supermarket carries nearly 20,000 items — double the offerings of just ten years ago — and 10,000 new products, flavors or varieties are being introduced annually. The quest for contemporary new products, however, is costly and not always successful. The Company's high quality Mexican and *Toaster* lines, for example, have lost money.

Therefore, to win the battle for shelf space — and customer loyalty — on a more permanent basis, Pillsbury has redirected its efforts toward being the very best in a fewer number of businesses with fewer product lines.

Research and development efforts are being turned toward finding new ways to improve quality and reduce manufacturing and distribution costs for existing products, as well as developing new products. While the Company continues to expand its leadership in microwave technology, emphasis is being placed on innovative ways to add convenience to already proven brands and products, rather than on creating entirely new product lines.

Research and development expenditures increased five percent to $40 million during the year, while $572 million was spent to advertise and promote Pillsbury brands, also an increase of five percent.

The Foods Group was reorganized in early Fiscal 1989 into three operating divisions — Consumer Foods, Industrial Foods and International Foods. Within Consumer Foods, the largest of the three, a major effort is underway to improve operating efficiency and reduce investments in inventories and fixed assets. The Company is

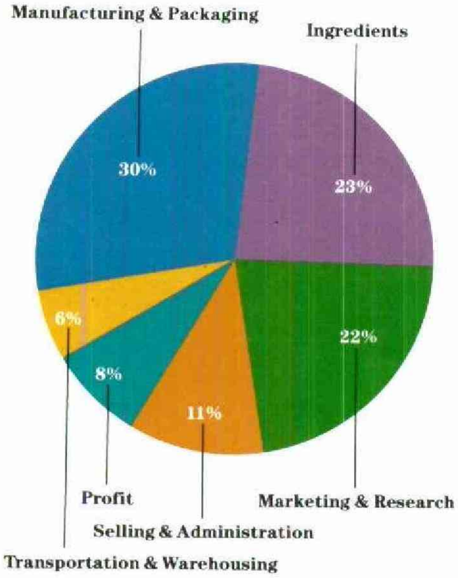
Net Sales
(Billions)

Operating Profit
(Millions)

committed to becoming a low-cost producer, and is cutting general and administrative costs by flattening the organization to make it more responsive to changing market conditions.

As this report goes to press, a major drought is sweeping the Midwest, raising concern about future crop prices and availability. While it is impossible to predict what the impact will be, Pillsbury's grain and vegetable oil needs through the end of calendar 1988 have been met under previous purchase arrangements. Together, flour and oils account for approximately 20 percent of domestic food ingredient costs, and about six percent of the Group's total cost of sales. More than half of Green Giant's vegetables are also grown in the Midwest, where early crop yields have been the lowest in half a century. Since other food producers are similarly affected, the Company expects to maintain its margins on most products.

Fiscal 1988 Consumer Foods Operating Costs and Profit
(% of Sales Dollar)



CONSUMER FOODS

Sales: $2.40 billion in Fiscal 1988 vs. $2.34 billion in Fiscal 1987.

The *Pillsbury Doughboy* and the *Jolly Green Giant* continued their winning ways during the year. By delivering consistently high quality, excellent price/value and contemporary new microwave offerings, the Company's two brand image superstars enhanced consumer loyalty and generated increased market shares for their products. Not a bad year's work considering that they have been advertising their wares since 1966 and 1928, respectively.

The Company's challenge in Fiscal 1989 is to bring those same attributes to bear in other areas of its business where unprecedented competitive pressures and a marketing failure in pizza resulted in sales and profit shortfalls. Indeed, action plans are underway throughout the Company to improve cost controls, maintain product superiority and regain market share and profit momentum. As part of that effort, the Company reduced its asset base and ended the year with 32 production facilities and 24 distribution centers.

Breads and baking products, the largest product category in Consumer Foods, posted Fiscal 1988 sales of $807 million, up two percent from Fiscal 1987. Pillsbury is the market leader in refrigerated dough products; ranks second in terms of market share in frostings, pancake mix *(Hungry Jack)* and family flour; and is third in dessert mixes.

The Company enjoyed its seventh consecutive year of volume, sales and profit increases in refrigerated dough, proving that a product line can still be considered fresh and exciting after nearly 60 years on the market. In fact, some of the Company's oldest products — biscuits, crescent dinner rolls and cinnamon rolls — continue to generate the highest sales volumes. Contemporary entries such as *All Ready* Pie Crusts, Soft Breadsticks and *Pillsbury's Best* Cookies are also demonstrating their strong staying power with consumers.

Pillsbury's hottest new item in the refrigerated case is a fully prepared microwave brownie. Sold in its own baking pan so there is no mixing or clean-up, it becomes a delicious, hot snack in just five minutes.

While new products have been a stimulus to success, refrigerated dough's enviable record is also attributable to its adherence to the fundamentals of quality, value and building a strong consumer franchise. A recent price increase in regular biscuits, for instance, was the first in six years.

Having won consumer acclaim in Fiscal 1987 with the introduction of the industry's first microwave cake mix, Pillsbury followed in Fiscal 1988 with microwave *Bundt**, streusel and brownie mixes. In all, more than 33 million packages were sold during the year.

However, competitors responded by significantly increasing trade allowances (which is another way of saying they reduced their wholesale prices) for regular cake mixes, and the Company's volume for those products declined. By meeting the competitive allowances in the second half of the year, volume improved, but with lower profit margins than in the past.

Pillsbury also operates a growing food service business offering flour, bakery mixes, vegetables and potatoes to restaurants and institutional kitchens.

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Vegetables, Consumer Foods' second largest product category, generated Fiscal 1988 sales of $777 million, up seven percent from Fiscal 1987. Pillsbury is by far the nation's largest seller of branded vegetables and the only company participating in the three major market segments — fresh, frozen and canned, as well as dehydrated potatoes. Under the *Green Giant, Le Sueur, Joan of Arc, Princella* and *BinB* labels, the Company is the market leader in canned corn, peas, asparagus, mushrooms and yams, as well as several major categories of frozen vegetables. It ranks second in canned beans. *Hungry Jack* is the brand leader in instant mashed potatoes, and *Pillsbury* ranks second in specialty boxed potatoes.

Vegetable sales benefited from two new frozen lines, from a change in marketing strategy in canned vegetables to be a year-round rather than seasonal supplier, and from increased penetration in fresh vegetables. However, a strong new competitor in dehydrated potatoes captured some of the Company's share of that market. Total vegetable volume rose three percent and profit nearly matched Fiscal 1987's record level despite heavy new product introductory costs.

Green Giant's reputation for freshness and variety in frozen vegetables was enhanced with the introduction of *Pasta Accents*, blends of seasoned pasta and vegetables, and *Garden Gourmet* microwaveable combinations of vegetables, rice or pasta, and sauces. The two lines sold over 30 million packages and contributed to a nine percent increase in total frozen vegetable volume.

New for Fiscal 1989 are frozen *Green Giant* one serving microwave vegetables, 11 varieties in individual size packages, and *Pillsbury* microwave side dishes, which bring a new level of convenience to scalloped, au gratin and sour cream and chive potatoes.

During the year, the Company sold its can manufacturing facility and a small specialty canned vegetable line acquired with *Joan of Arc* in Fiscal 1986. Continued efforts to better utilize facilities, trim operating costs, improve seed varieties and expand global sourcing to ensure product quality and freshness are high priorities for Fiscal 1989.

Sales in the third major product category, meals and snacks, fell six percent in Fiscal 1988 to $607 million. Pillsbury is Number 1 in frozen pizza, using the *Totino's, Jeno's, Fox Deluxe, Mr. P's* and *Pillsbury* microwave labels. *Van de Kamp's* ranks third nationally in frozen seafood. Pillsbury also markets a number of high volume specialty microwave items such as popcorn and pancakes. Nevertheless, this area encountered several problems in Fiscal 1988 and much of the restructuring costs taken during the year, including three plant closings, addressed issues in this area of the business.

Pizza was the year's most vexing problem. Efforts to differentiate the *Totino's* and *Jeno's* lines following the acquisition of *Jeno's* in Fiscal 1986 proved far more difficult than expected. Although the quality of the *Totino's* product was improved with more toppings, consumers balked at the significantly higher price, and volume and profit fell. The Company is returning to its previous product strategy and price point, with increased marketing support.

Pillsbury is committed to this large and important market and believes that by ensuring that it is the low-cost producer, it can retain its market leadership and return to historic profit levels. As a major step to improve productivity, one pizza plant was closed during the year and production is being consolidated at three other facilities.

A similar plant consolidation underway in seafood and renewed emphasis on product quality are expected to improve profitability at *Van de Kamp's*. Through product innovations, including the introduction of the industry's first microwaveable breaded fish fillets last year, the Company has steadily increased sales and market share. But intense price competition has held profit margins below an acceptable level.

Ice cream, one of Pillsbury's fastest growing Foods businesses, posted an 18 percent sales increase to $205 million. Volume rose by a similar amount and profit more than doubled. All of which made *Häagen-Dazs* a sweet success in Fiscal 1988 — the story of a strategy that worked and a brand that continued to enhance its standing as the best selling luxury ice cream in the world. Considering that industrywide ice cream sales have been flat and that there is strong competition among luxury brands, the *Häagen-Dazs* story is all the more remarkable.

Contributing to this success have been a number of outstanding new products. Over 80 million *Häagen-Dazs* ice cream bars — vanilla or chocolate ice cream covered in rich Belgian chocolate — were sold during the year, making it the most successful new product in Pillsbury's history. With national distribution and the introduction of a new almond and chocolate coated bar, sales last year increased more than 50 percent from Fiscal 1987.

Special Additions, a new pint line, won consumer approval as **USA Today** declared macadamia brittle to be the ice cream flavor of the year. A fresh blueberry flavor was also added to the popular Sorbet & Cream line.

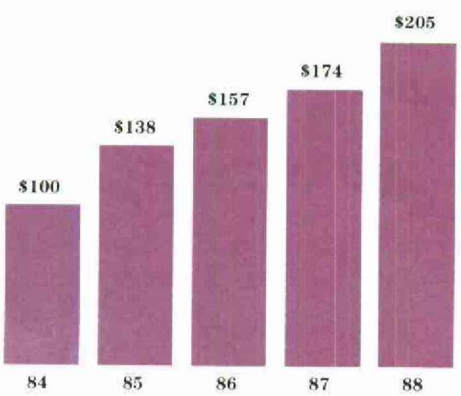
Häagen-Dazs

Last year's Annual Report discussed a costly three-point program to upgrade manufacturing facilities, expand Company-operated distribution centers and revitalize the *Häagen-Dazs* Shoppes business. These measures were considered essential to ensure that the Company maintained the highest possible product quality and safety standards, that it could obtain the best shelf space and marketing support at the supermarket and that it could reestablish a profitable and growing retail presence for its products through the Shoppes.

Each strategy was implemented and each has shown significant progress. During Fiscal 1988, the Company completed the modernization of its older manufacturing plant and expanded the Company's base for the direct store door delivery of its products. Nearly a third of Häagen-Dazs' volume is now moving through Company-owned distribution centers, compared with just nine percent three years ago. An important legal decision also upheld the Company's right to require brand loyalty from its outside distributors.

For its Shoppes business, *Häagen-Dazs* has developed a gourmet yogurt and the industry's first soft-serve luxury ice cream. Both are being introduced this summer. Considerable effort to reorganize the Shoppes business occurred during the year and several poorly performing outlets were closed. At year-end, *Häagen-Dazs* served 285 Shoppes — 260 franchised, 21 licensed and four Company-operated — with concentration in the Northeast, Florida and California.

Häagen-Dazs U.S. Ice Cream Sales
(Millions)



INDUSTRIAL FOODS

Sales: $416 million in Fiscal 1988 vs. $473 million in Fiscal 1987.

Although sales declined due to the sale of two flour mills a year ago, profit in Fiscal 1988 set a record. During the year, the Company combined its grain merchandising, special commodities, flour milling and bakery products operations into a single, customer-focused business. By capturing the synergies of an integrated approach to these commodity- and transportation-dependent businesses, Pillsbury expects to achieve further economies of scale, greater market penetration and a reliable base for long-term profitability. At the same time, the Company is exploring new growth opportunities after several years of successfully pruning these businesses to their most productive assets.

Pillsbury is the nation's fourth largest flour miller with eight mills and a daily capacity of 120,000 hundred weights. With per capita flour consumption continuing to rise, the Company is pursuing special growth segments of the industry which offer further profit opportunities.

To leverage its expertise in flour milling, Pillsbury has become a major supplier of quality cake, doughnut and other bakery mixes and toppings to the commercial baking industry. The Company's *Royal Viking* Danish mix, for instance, is the industry leader. During the year, the Company expanded its bulk frozen dough line to include 13 varieties of frozen cookies sold under the *Mill Street* brand, as well as Danish and puff pastry. Bakeries, especially those located within supermarkets, are finding these high quality convenience products an excellent means of offering continuously fresh, hot, bakery-quality treats to their customers.

The Company's Moline Equipment division is the leading supplier of wholesale dough sheeting and doughnut frying equipment, with growing sales to retail bakeries and supermarkets.

Grain merchandising benefited from government policies during the year which encouraged the storage of corn and soybeans, and expects to continue to benefit in Fiscal 1989 as those policies shift toward increased sales and grain shipments. Improved trading margins during the summer drought are also expected to benefit early Fiscal 1989 results. With one of the most efficient grain handling systems in the country, Pillsbury operates 48 grain facilities, primarily in the upper Midwest, with a storage capacity of 103 million bushels. It also owns five towboats and 53 barges and leases 888 railcars.

Special commodities is the nation's largest merchandiser of processed feed ingredients for the poultry, hog, beef and dairy industries. It continued to benefit from ready access to the by-products of flour milling and spent grain from the brewing industry, and reported sharply increased sales and profit during Fiscal 1988.

INTERNATIONAL FOODS

Sales: $748 million in Fiscal 1988 vs. $554 million in Fiscal 1987.

Record results were achieved by Pillsbury's International Foods group. Profit advanced substantially more than the 35 percent increase in sales, with more than 60 percent of the gain attributable to internal growth. Acquisitions and favorable currency trends accounted for the balance. Underlying this success is a strategy based on:

- strengthening the Company's position in the major economies of Europe, Canada, Latin America and Japan;
- developing the international potential of the Company's proven brands, primarily *Green Giant* and *Häagen-Dazs;* and
- extending the Company's technology to premier quality, value-added convenience products in the growing economies of the Asia/Pacific region and Latin America.

In the process, several low-return businesses have been sold and others combined to provide greater scale or operating efficiency. At year-end, the Company had 34 manufacturing plants in 11 countries and exported products, primarily vegetables, flour and dessert mixes, to another 52 countries.

The export of foods from the U.S., which accounts for a small, but meaningful part of International Foods profit, increased substantially in Fiscal 1988 as the Company was able to capitalize on the weaker U.S. dollar.

Géant Vert.

In Europe, *Green Giant* achieved record volume and profit in France and the United Kingdom and entered Spain and Italy for the first time. Sales of baked goods increased in France and Belgium, while in the U.K., *Green's* cake mixes increased its market share through continued emphasis on quality and convenience, utilizing Pillsbury's expertise in microwave cakes and brownies. *Erasco,* Germany's leader in canned dish-ready meals, introduced a new line of shelf-stable prepared meals, and *Hofmann Menü* strengthened its position in the institutional market with a 33 percent volume increase.

More than 30 new or improved items were introduced in the Canadian market during the year, including many developed from Pillsbury's microwave technology. In addition, *Green Giant* attained record market shares in canned and frozen vegetables, as did *Totino's* in frozen pizza.

Record operating profit in Latin America resulted from volume growth in established products, such as flour and pasta in Venezuela and Mexico, and increased emphasis on new value-added products. For instance, a new line of cake and pancake mixes was introduced in Venezuela, while *Mac'Ma* cookies and high quality pasta did well in Mexico.

Strong performances were recorded by all joint-venture companies in the Asia/Pacific region, especially *Häagen-Dazs* Japan. Ice cream sales in Japan approached $45 million and product availability expanded to 2,300 grocery outlets. *Häagen-Dazs* also made its European debut by opening several Shoppes in Germany.

Four acquisitions were completed during the year, including the largest international acquisition in Pillsbury's history, *Fraser Valley Foods* of Canada,

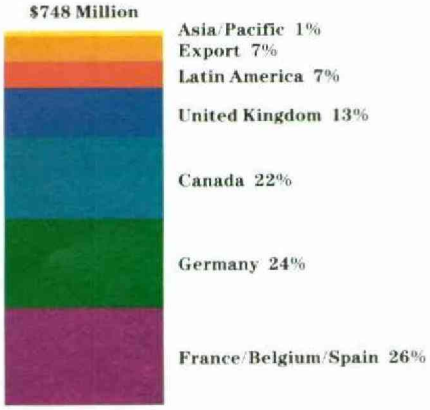
Fraser Valley Foods

which significantly increased the Company's presence in that country's canned and frozen vegetable markets. *Pizza Pops* snacks provided an entry into Canada's growing snack food market. In Europe, *DK-Menü* further strengthened the Company's position in institutional foods, while the January acquisition of *Driehoek* of Holland added another high quality baked goods producer to the Company's broadening European baked goods operations.

In addition, the Company integrated several acquisitions made during Fiscal 1987, including *Vinchon-Jeannette,* a baked goods producer in France, and *Chistu,* a leading vegetable producer in Spain.

International Food Sales
(Millions)

International Food Sales



RESTAURANTS

	Fiscal 1988	Fiscal 1987	Increase (Decrease)
Systemwide sales	**$ 6.37 billion**	$ 6.00 billion	6%
Net sales	**2.63 billion**	2.76 billion	(5)
Operating profit	**73.0 million**	219.2 million	(67)
Profit excluding unusual items	**217.2 million**	236.2 million	(8)

Pillsbury reduced the size and scope of its Restaurant Group in Fiscal 1988, and redirected its efforts toward strengthening its core businesses — *Burger King*, including *Distron*, *Bennigan's* and *Steak and Ale*. The Company is committed to these businesses and believes that they have significant potential for future growth. However, in an increasingly competitive environment, the Company concluded that it cannot realize their full potential while simultaneously developing several smaller concepts.

As a result, the Company recorded a $144 million restructuring charge to sell the *Godfather's Pizza*, *Bay Street*, *Quik Wok* and *Key West Grill* restaurant chains; sell or close 30 under-performing *Steak and Ale* and *Bennigan's* restaurants; upgrade 200 Company-owned *Burger King* restaurants; and reorganize *Distron*, Burger King's distribution arm.

At year-end, the Company operated or franchised nearly 6,000 restaurants, excluding discontinued concepts. While this is four percent fewer than a year earlier, Pillsbury still ranks as one of the largest restaurant organizations in the world with systemwide sales in excess of $6 billion a year.

Net sales, which reflect sales at Company-operated restaurants, royalties, rentals and development income from *Burger King* franchisees and external sales by *Distron*, declined five percent. Operating profit fell sharply because of the restructuring charge, while profit excluding unusual items declined eight percent. Although Burger King's domestic and international operations achieved record results with a nine percent increase in profit, performance elsewhere slipped. *Distron* and *Steak and Ale*, in particular, reported much lower results.

The restaurant industry is a significant part of the American economy, accounting for more than 31 percent of total consumer food purchases. However, its rate of growth has slowed as the industry has matured. Adjusted for price increases, the growth in restaurant sales in Fiscal 1988 was the weakest since 1982. Yet, industry expansion continues apace. Between 15,000 and 20,000 new fast food restaurants — serving hamburgers, pizza, tacos, chicken and fish — have opened in the past four years.

In the hamburger segment alone, the three largest chains, including *Burger King*, have tripled advertising spending since 1981. Discounting has also reached unprecedented levels, with price reductions affecting one out of every five hamburgers and one out of every three pizzas sold during the past year. At the same time, the industry is feeling increasing cost pressure. Wages are rising in response to falling national unemployment and a shrinking teenage population, and a higher federal minimum wage bill is being debated in Congress.

Even in this environment, however, opportunities for sales and profit growth are excellent for companies that can meet consumer needs and expectations. Industry growth still exceeds that of the economy and the packaged food industry. Pillsbury has embarked on major programs to improve marketing and operations of its restaurants in order to increase its market share and profitability. Significant steps were taken during Fiscal 1988 to reduce operating, overhead and new construction costs and to

Net Sales
(Billions)

Operating Profit
(Millions)

build on the Company's reputation for quality menu items.

Fiscal 1989 will see increased spending for restaurant remodeling, greater emphasis on productivity, improved store level management and a renewed commitment to give customers the best meal and best mealtime experience for their money. While the long-term benefit is expected to be substantial, the program will hold back profitability in the current year.

FAST FOOD

Sales: $1.91 billion in Fiscal 1988 vs. $2.03 billion in Fiscal 1987.

B*urger King* is the world's second largest hamburger chain with 17.5 percent of the domestic market and a growing presence in 30 foreign countries. Systemwide sales, which include those of franchised as well as Company-operated stores, rose seven percent to $5.40 billion.

In May, *Burger King* opened its 5,000th U.S. restaurant and at year-end, had 5,578 outlets — 5,020 in the U.S. and 558 abroad. Worldwide, 455 new restaurants were opened — 367 in the U.S. and 88 abroad. At the same time, 56 low-return units were closed.

Although sales per restaurant declined one percent, they averaged over $1 million for the fourth consecutive year. Generating added sales momentum through improved marketing and operations is the Company's top priority for Fiscal 1989.

Burger King relies heavily on the entrepreneurial spirit and personal investment of nearly 1,400 independent men, women and business groups to generate sales vitality in their local communities. Franchisees operate 85 percent of all *Burger King* restaurants and, over the past two years, have accounted for more than 90 percent of the new restaurant openings. Much of Burger King's profit is derived from royalties, rentals and development income from its franchisees.

The Company owned and operated 733 domestic restaurants at year-end, compared with 719 a year earlier. Store operating profit at these restaurants rose from 15.6 percent to 16.9 percent of sales in Fiscal 1988, the highest level in years. Less discounting and lower food costs were largely responsible. As a result, *Burger King*, alone among the three major hamburger chains, was able to forgo any price increase at Company stores in Fiscal 1988.

New vendor contracts represented major achievements during the year. Pepsi-Cola won continued soft drink rights under an agreement which provides for favorable promotional tie-ins. In an effort to improve the consistency and focus of its advertising spending, the Company selected N.W. Ayer as its first new ad agency in 12 years. A new campaign, "*We do it like you'd do it,*" underscores the taste appeal of flame-broiled burgers and is winning increased advertising awareness for *Burger King* and its products. Systemwide advertising expenditures in the U.S. rose six percent to $227 million for the year.

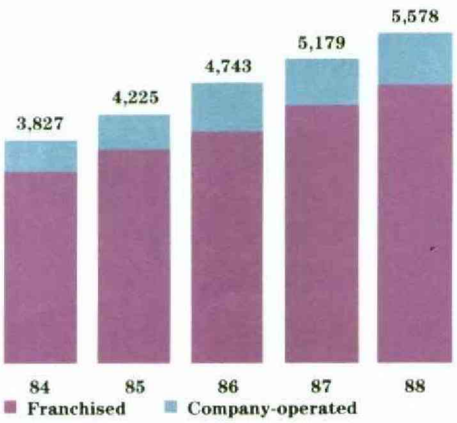
Several promotional products, such as bite-size *Burger Bundles* mini-cheeseburgers, Bull's-Eye Barbeque burgers and *Spooners* frozen treats, made successful sales contributions during the year. Still, the *Whopper* sandwich retained its standing as one of America's most popular sandwiches. Nearly 600 million of the garnished quarter-pound burgers were consumed last year.

A new bagel breakfast sandwich joined the popular *Croissan'wich* as breakfast sales accounted for 11 percent of total sales. The successful test of prepackaged salads prompted a decision to remove salad bars from some Company-operated restaurants. Prepackaged salads facilitate drive-through sales and involve less labor and waste, thereby enhancing profits.

New building designs were approved and an industrial equipment and decor purchasing program was implemented to improve profitability for the Company and its franchisees. Five cost-effective designs have been approved which offer greater flexibility in building size, seating capacity and drive-through configurations to better meet local needs. In the process, the cost of a basic 2,500-square foot, 90-seat building has been reduced 20 percent to 1984 levels, and the equipment and decor cost for a new restaurant has been cut by a similar amount.

As a result of these efficiencies, the Company intends to build about 40 new units in the U.S. this year, compared with 25 in each of the past two years. Despite over-capacity in some markets, *Burger King* believes there is ample opportunity for growth in selected markets where it is under-penetrated, and at unconventional sites, such as hospitals, schools, zoos, airports and turnpikes. A comprehensive national development plan was put in place during the year to help achieve increased market share and expand in priority markets. In addition, *Burger King* intends to increase its purchases of franchised restaurants in order to supplement its own unit expansion and increase its ownership base.

Burger King Restaurants
(Units Open as of May 31)



Remodeling existing facilities is another high priority. A major program is underway to upgrade 200 units over the next two years, many in the Chicago and New Orleans areas which were acquired three years ago as part of Diversifoods Inc., the Company's largest franchisee at the time. In addition, a new exterior decor and lighting package is being tested at Company-operated restaurants to provide a fresh, appealing look at night. New point-of-sale computers are also being installed to improve in-store productivity and allow managers to focus more on customers than on paperwork.

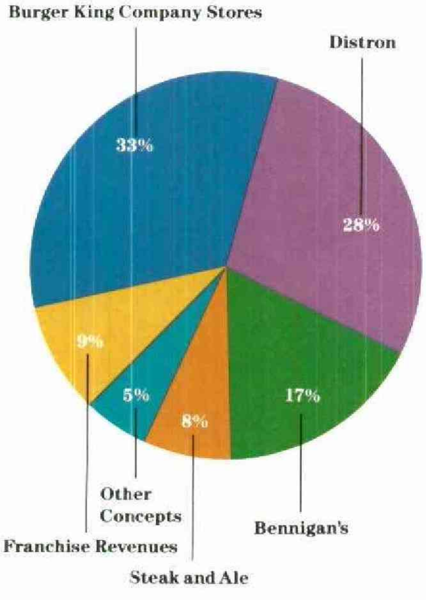
With 32,500 Company employees in the U.S. and almost 200,000 more employed by franchisees, *Burger King* is a leader in the hiring, motivation and retention of youth and minority workers. To improve employee training and increase the quality and consistency of service, additional managers are being added at Company units and their financial incentive packages are being improved. The Company also increased the number of division and district managers in order to better monitor operations quality and work more closely with franchisees. At the same time, corporate overhead was reduced by three percent in Fiscal 1988.

Distron, which supplies all Company-operated restaurants and a majority of the franchised system with meat, produce, paper products and other supplies, encountered serious competitive pressures and lost some customers during the year. External sales of $722 million were down 11 percent on a similar drop in volume. Profit fell sharply. Distron's mission is to ensure the lowest possible costs for the entire *Burger King* system while maintaining the highest product quality. Under new management, the division is lowering its operating costs and improving service levels, and expects to increase its market share in Fiscal 1989. *Distron* operates 21 distribution centers across the country.

Burger King International, with 84 Company-operated and 474 franchised restaurants, now represents ten percent of the system. Systemwide sales rose 26 percent to $555 million on a 17 percent increase in units. Higher sales per restaurant and improved store operating profit were reported in Europe, Asia and Latin America. Despite continued soft sales in Canada, which accounts for one-third of its market, the division turned in its best year ever.

In Europe, *Burger King* has been opening high-volume restaurants in airports, train stations and along the autobahn. Opening soon will be a restaurant in a toy store in Nuremberg, West Germany. Having developed the first freestanding units in Germany and the United Kingdom in Fiscal 1987, the Company extended drive-through convenience to freestanding facilities in Spain and Sweden during the year, and became the market leader in Norway by opening four restaurants.

Restaurant Group Revenues
(% of Fiscal 1988 Net Sales)



Two other fast food concepts, *Godfather's Pizza* and *Quik Wok*, have not fared as well. Although *Godfather's Pizza* made substantial progress since its acquisition as part of Diversifoods Inc. in Fiscal 1986, it lacked sufficient scale to be a meaningful profit contributor in today's competitive environment. The sale of the 563-unit chain is expected to be completed during the summer. *Quik Wok*, a start-up Chinese fast food concept with 13 units, was not able to generate the appeal anticipated at the time of its acquisition and is also expected to be sold in early Fiscal 1989.

FULL SERVICE

Sales: $716 million in Fiscal 1988 vs. $737 million in Fiscal 1987.

In focusing on its core businesses, Pillsbury made major changes in the outlook and operations of its full service restaurants. A year ago, S&A Restaurant Corp., the Company's full service restaurant management company, operated 411 restaurants in four concepts and was pursuing a hotel food service venture as well. But a sizeable profit shortfall at its flagship *Steak and Ale* dinnerhouse chain caused a reversal of strategy.

During the year, the Company sold or closed 23 low-return *Steak and Ale* and *Bennigan's* restaurants, many in depressed oil producing areas; announced plans to divest its two newest concepts — *Bay Street* and *Key West Grill* with a total of 21 restaurants — and withdrew from its hotel food service venture. At year-end, the Company operated 165 *Steak and Ale* and 214 *Bennigan's* restaurants in 32 states. While some low-return units covered by the restructuring remain to be sold, the two concepts have been placed on a solid footing for long-term profitability.

By repositioning *Steak and Ale* as a classic steakhouse, the Company has slowed a three-year battle against declining sales. Although average sales per restaurant fell six percent to $1.3 million for the year, the chain posted its best year-to-year sales numbers in three years during the fourth quarter. Improved service and a new *"Legend in Steak"* advertising campaign focusing on the concept's 22-year heritage assisted in the turnaround. Also, two new steaks, Chateau for One and a marinated Bourbon Street steak, were introduced with excellent consumer response.

Bennigan's, which has masterfully used food quality and menu variety to differentiate itself from the fern bar environment, retained its position as the country's leading casual dining establishment. However, sales of $2.2 million per restaurant were down three percent from Fiscal 1987 as liquor sales stabilized at about 31 percent of total sales.

To rejuvenate its vitality, *Bennigan's* has accelerated its remodeling program, introduced a lower priced luncheon menu and is placing greater attention on service with an increase in staffing. All of this is backed by a new advertising campaign, including the chain's first television spots, which highlight *Bennigan's* as a fun place to eat.

Eleven new *Bennigan's* were opened during Fiscal 1988 and a like number are planned for the current year. Expansion is targeted toward the Northeast and West Coast markets where high per-store sales translate into superior returns.

By focusing on two concepts and eliminating new development efforts, general and administrative costs were reduced by eight percent.

Pillsbury has a long and proud history of community involvement which was continued during Fiscal 1988. Despite a financially disappointing year, the Company supported a variety of community programs with $7.6 million in cash and more than $4.2 million in donated products.

Reductions in workforce and plant closings were handled with sensitivity, both in terms of financial assistance and career counseling for employees, and in the advance notice provided to the communities involved. Pillsbury received welcome public support for its actions.

Progress was made at *Burger King* in increasing its number of minority franchisees, vendors, restaurant managers and employees. At year-end, 12 percent of Burger King's 1,300 domestic franchisees were minorities and 11 percent of its advertising dollars went to black or Hispanic agencies and media.

In its philanthropic efforts, the Company is building an issue-oriented program based on focused grants and employee involvement. Particular emphasis is being placed on finding solutions to issues involving hunger and youth, two areas which fit nicely with Pillsbury's heritage and business expertise. These issues are being addressed on two levels.

In response to emergency needs, nearly five million pounds of food products were donated to local food shelves and to the Second Harvest Network for distribution to 88 food banks across the country. Company volunteers designed a pilot repackaging facility in a food bank to convert jumbo size containers of frozen food into manageable size boxes for further distribution. The Company's S&A Restaurant Corp. subsidiary helped pioneer the Twelve Baskets concept in Atlanta to move excess prepared and perishable food into the emergency food system.

But faced with rising numbers of hungry and homeless in a land of plenty, the Company has begun to put more of its charitable dollars into programs that may offer longer-term solutions. Specifically, the Company seeks to raise the issue of hunger to a higher level of local and national priority through public information and education efforts and to reestablish government as having the primary responsibility for feeding the hungry. In what is believed to be the first such partnership of its kind, Pillsbury joined with Primerica Corporation to fund several national organizations which are striving to increase public awareness and offer policy options for alleviating hunger and malnutrition.

Internationally, Pillsbury's research personnel have worked over the past four years with the Freedom from Hunger Foundation in Bolivia, to provide and train thousands of people in the use of solarbox cookers and nutritional foods.

In dealing with youth, the Company has focused its attention on poor and minority youngsters who are at risk in today's society. Programs have been funded in education, job skills and the development of personal and social responsibility. In the Minneapolis-St. Paul area, the Company has led an effort to enlist adults to serve as mentors, tutors and friends for at-risk youth, and has supported a successful effort to help low-income minority students achieve post-secondary education.

Over the past four years, *Burger King* has provided financial assistance for 4,000 employees to advance their education under its Crew Education Assistance Program. "In Honor of Excellence," now in its fifth year, continued to win wide acclaim for its recognition of the nation's outstanding teachers and principals.

In addition, the Company and its foundation matched employee contributions to United Way campaigns and colleges, and supported a number of arts, cultural and civic activities in the communities where its employees live and work.

PILLSBURY IS COMMITTED TO ACHIEVING SPECIFIC FINANCIAL OBJECTIVES DESIGNED TO ENHANCE SHAREHOLDER WEALTH. A MAJOR RESTRUCTURING IN FISCAL 1988 CLEARED THE DECK OF UNPRODUCTIVE ASSETS AND SET THE STAGE FOR IMPROVED PERFORMANCE. THUS, THE COMPANY ENTERS FISCAL 1989 IN STRONG FINANCIAL HEALTH LEADING TOWARD HIGHER EARNINGS AND SHAREHOLDER RETURNS.

FINANCIAL REVIEW

Pillsbury's primary financial goal is to enhance shareholder wealth. To do so, the Company strives to achieve superior performance and predictable earnings growth through corporate strategies which meet the following objectives:

- Annual growth in earnings per share of 10 to 15 percent over time.
- A return on shareholders' equity of at least 18 percent and an after-tax return on invested capital of 13 percent or more.
- A ratio of long-term debt-to-total capitalization of approximately 40 percent, providing the financing flexibility of an "A" credit rating.

Although the Company has met its earnings objective in five of the past ten years, it has not done so in the last three years, and has yet to achieve its return objective. Consequently, a major effort to restructure the Company and remove underperforming assets was completed in Fiscal 1988. This reduced net earnings and returns to the lowest levels in more than a decade, but set the stage for improved performance in the years ahead.

Pillsbury's stock price was also affected by the market fall-off in October 1987, and by rumors and speculation about the Company's future. A record 115.7 million Pillsbury shares were traded during Fiscal 1988, more than double the prior year's record, which represented 135 percent of the Company's total shares outstanding. As a result, the stock price fluctuated widely and ended the year at $37.50 per share, 3 percent below its close a year earlier.

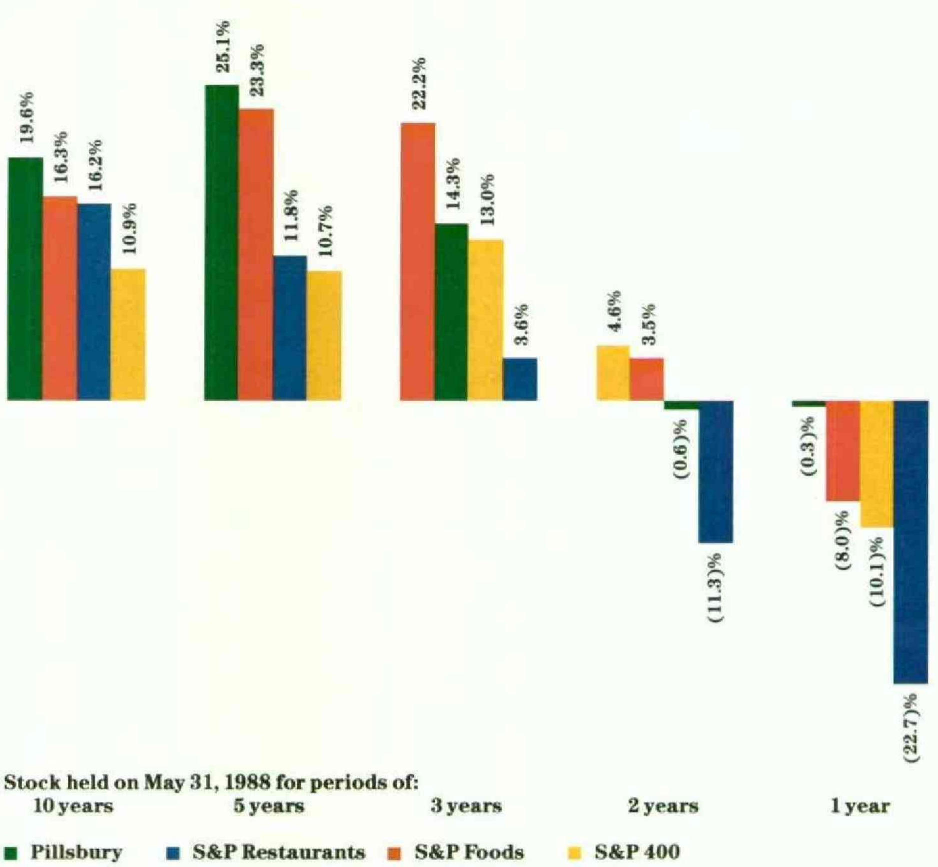
However, this was largely offset by a 13 percent increase in cash dividends to $1.09 per share, marking the 30th consecutive year that the Company has paid higher dividends. While the Company's total return to shareholders (dividends plus market change) was essentially zero for the year, it was one of the best records in the food and restaurant industries and compared favorably with a 10 percent year-over-year loss for the Standard & Poor's 400, a broad gauge of the entire stock market. Over the years, Pillsbury's long-term shareholders have received outstanding total returns of 25 percent per year over the past five years and 20 percent per year over the past ten years.

OPERATING RESULTS

Sales of $6.19 billion in Fiscal 1988 were up only modestly for the year, but were 60 percent higher than five years ago and preserved a record of consecutive years of growth, now at 31. A major restructuring program implemented late in the year had little impact on sales. Although operations with Fiscal 1988 sales of approximately $300 million are being discontinued under that program, most of the properties had not been sold by year-end. Sales rose 5 percent in Fiscal 1987.

Stable ingredient costs enabled the Company to maintain a gross margin of 30 percent of sales — 36 percent for Foods and 22 percent for Restaurants. Restaurant operations are more labor intensive than Foods and the Company's Restaurant Group operates a distribution business characterized by narrow margins. Drought conditions in the Midwest may affect margins in Fiscal 1989, although higher grain prices should be offset, at least initially, by lower beef costs.

Total Return to Shareholders
(Compound Annual Return)



Selling, general and administrative expenses increased slightly to 23 percent of sales as Foods-related costs (28 percent of sales) rose with higher sales and Restaurant-related costs (14 percent of sales) fell less than sales declined. In Foods, advertising and promotional expenditures accounted for 16 percent of sales, while in Restaurants, where Burger King franchisees pay their proportionate share of advertising costs, such expenses were 3 percent of sales.

Earnings before income taxes fell 56 percent to $156 million following a 7 percent decline in Fiscal 1987. Unusual items (restructuring charges and other nonrecurring items) of $215 million in Fiscal 1988 and $29 million in Fiscal 1987 accounted for virtually all of the decline in both years. (See page 23 for details on unusual items.) Excluding unusual items, pretax profit of $371 million in Fiscal 1988 equated to 6 percent of sales, essentially unchanged from the prior two years.

Because the restructuring charges could not be fully recognized for tax purposes, the Company's effective income tax rate was 55.6 percent in Fiscal 1988 versus 48.4 percent in Fiscal 1987. Excluding unusual items, the rate was 43.4 percent versus 49.1 percent. The Tax Reform Act of 1986, which removed the benefit of investment tax credits, accounted for most of the rise in the Fiscal 1987 tax rate from the prior year's 44.8 percent.

Net earnings of $69 million declined 62 percent and represented 1.1 percent of each dollar of sales, compared with 3 percent a year earlier. Excluding unusual items, earnings rose 8 percent to a record $210 million, or $2.45 per share, and equated to 3.4 cents per dollar of sales. Under a Company share repurchase program, average shares outstanding have been reduced by 1.3 million shares over the past two years.

CHANGES IN FINANCIAL POSITION

Pillsbury's financial strength is based on its excellent internal cash generation from operations, supplemented by asset sales and an "A" credit rating.

Despite substantially lower net earnings in Fiscal 1988, funds from operations declined only 9 percent to $434 million as more than half of the restructuring charges involved write-downs of noncurrent assets which did not affect cash flow. Working capital requirements were also reduced. Asset disposals of $114 million were essentially unchanged from Fiscal 1987. However, the sale of properties included in the restructuring program is expected to generate more than $100 million in additional cash in Fiscal 1989.

Total funds generated internally of $608 million was 13 percent higher than in Fiscal 1987. This was more than sufficient to finance $382 million in new investments (down 4 percent from Fiscal 1987), pay increased dividends, repurchase $33 million in Company stock and reduce long-term debt by $51 million.

FINANCIAL POSITION

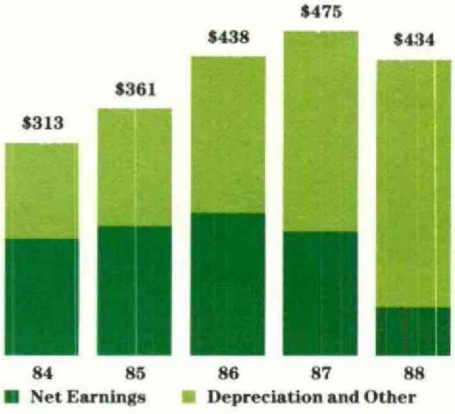
Few changes occurred in Pillsbury's balance sheet in Fiscal 1988 as the sale of assets under the restructuring program is yet to be completed. The Company maintained a current ratio (current assets to current liabilities) of 1-to-1, long-term debt of $946 million was reduced 5 percent and amounted to 41 percent of total capitalization versus 42 percent a year earlier, but shareholders' equity of $1.34 billion was 3 percent below that of Fiscal 1987, due to the restructuring charges.

With strong cash flow from operations, anticipated asset sales, an "A" credit rating and $700 million in bank credit lines, the Company believes it has adequate liquidity to meet projected internal funding requirements and take advantage of other opportunities that might arise.

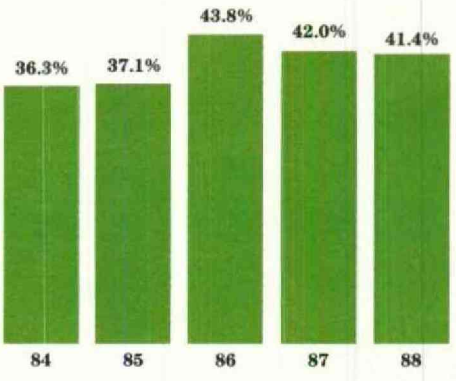
SEGMENT ANALYSIS

Pillsbury is an international food and restaurant organization with a history of growth through internal develop-

Funds Provided from Operations
(Millions)



Long-Term Debt-to-Total Capital



ment and acquisitions. At year-end, the Company's identifiable assets were split nearly equally between its Foods and Restaurant businesses, with approximately 15 percent tied to foreign operations.

During the year, Foods generated 58 percent of total sales, up from 55 percent a year earlier, and contributed 75 percent of the Company's operating profit. Excluding restructuring charges, which were predominantly in the Restaurant segment, operating profit for the two segments was in line with their sales contribution.

Net sales rose 1 percent — 6 percent for Foods on a 1 percent increase in volume, offset by a 5 percent decline in Restaurants, the first such drop in the Company's history. Foreign sales rose 36 percent to $840 million and accounted for 14 percent of total sales. Foods prices were raised 4 percent during the year, while in Fiscal 1987 there was no overall price increase as sales and volume both rose 6 percent.

Restaurant sales declined due to reduced revenues and customer accounts at Distron, Burger King's distribution division, and lower average unit sales at all restaurant concepts. Burger King and its franchisees added a net 399 new units during the year, compared with 436 units a year earlier. Burger King did not increase menu prices during the year, but the Company's full service concepts increased prices by about 1 percent. In Fiscal 1987, Restaurant sales rose 4 percent with most of the increase attributable to higher prices.

Operating profit fell 38 percent to $288 million, the lowest level since Fiscal 1982, due to restructuring costs. In Fiscal 1987, operating profit declined 9 percent. Excluding unusual items in both years, segment operating profit was virtually flat. Foreign profit increased 42 percent in Fiscal 1988 and accounted for 10 percent of the total, up from 5 percent a year earlier.

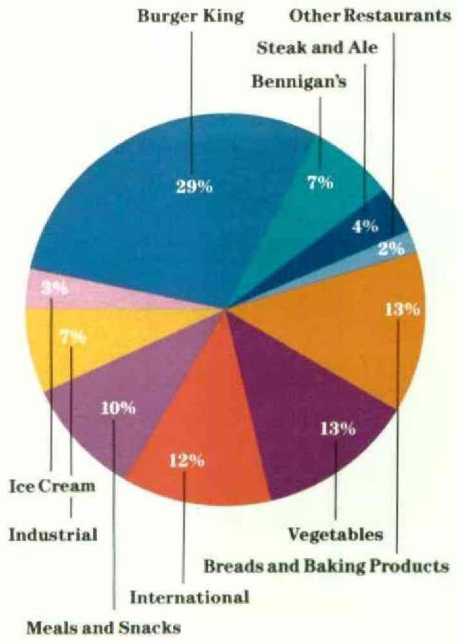
Foods operating profit declined 13 percent, but excluding unusual items, rose 6 percent to $281 million. In Fiscal 1987, Foods had an exceptional year as operating profit rose 19 percent. Excluding unusual items, operating profit equaled 7.9 percent of sales in both years.

Restaurant operating profit fell 67 percent in Fiscal 1988 after having fallen 28 percent the year before. Most of the decline in both years was attributable to unusual items. Excluding these items, profit declined 8 percent to $217 million in Fiscal 1988 and equated to 8.3 percent of sales, compared with 8.5 percent in Fiscal 1987.

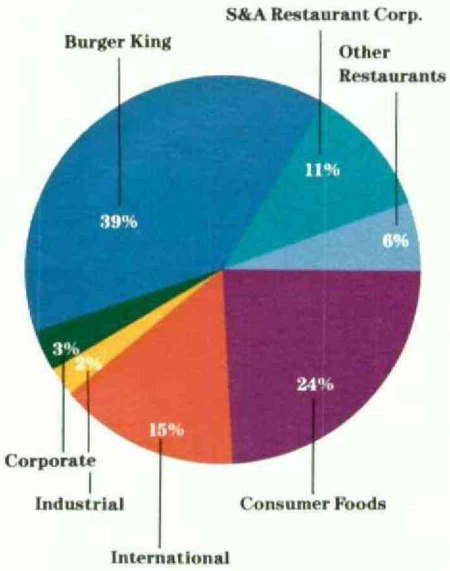
General corporate expense doubled to $34 million despite an 18 percent reduction in normal staff-related expenses. One-time reorganization costs of $5.4 million coupled with lower earnings from unconsolidated affiliated companies adversely affected Fiscal 1988, while an $11 million gain on the sale of a foreign joint-venture interest, as well as a favorable insurance adjustment, benefited Fiscal 1987.

Capital expenditures declined 6 percent to $300 million, the lowest level since Fiscal 1984. Foods expenditures have been largely for plant modernization, with the largest single project being a major upgrade of the Häagen-Dazs plant in Woodbridge, N.J. In Restaurants, the Company has slowed expansion over the past two years, particularly for new concepts. Restaurant expenditures remained at 61 percent of total spending, the same as in Fiscal 1987, but well below the 70-plus percent range of prior years. Spending on core concepts is expected to increase this year, with $70 million, more than a 100 percent increase from Fiscal 1988, slated for remodeling Burger King and Bennigan's units.

Fiscal 1988 Net Sales



Fiscal 1988 New Investments
($382 Million of Capital Spending and Acquisitions)



Management's Statement of Financial Responsibility

Pillsbury management is responsible for the preparation, objectivity and integrity of the Consolidated Financial Statements and related information in this Annual Report. The Consolidated 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 maintain internal accounting control systems and procedures which provide reasonable assurance that assets are adequately safeguarded, prescribed policies are effectively pursued and transactions are properly recorded. Comprehensive internal audits review and monitor this process, providing a further confirmation of the integrity of our system of internal accounting controls.

The Audit Committee of the Board of Directors, composed of five Directors who are not employees of the Company, meets regularly with the independent auditors, management and its internal auditors. The Committee recommends to the full Board the independent auditors to be retained for the ensuing year, subject to shareholder approval. The independent auditors and internal auditors have direct access to the Audit Committee to discuss the scope and results of their audit work and their comments on the adequacy of internal accounting controls, the quality of financial reporting, and the effectiveness of management in carrying out its system of financial controls.

Roger L. Headrick
Executive Vice President
Chief Financial Officer

Independent Auditor's Report

Minneapolis, Minnesota
June 27, 1988

Shareholders and Board of Directors
The Pillsbury Company

We have audited the accompanying consolidated balance sheets of The Pillsbury Company and Subsidiaries as of May 31, 1988 and 1987, and the related statements of earnings and changes in financial position for each of the three years in the period ended May 31, 1988. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Pillsbury Company and Subsidiaries at May 31, 1988 and 1987, and the results of their operations and changes in their financial position for each of the three years in the period ended May 31, 1988, in conformity with generally accepted accounting principles.

Touche Ross & Co.

Certified Public Accountants

The Pillsbury Company and Subsidiaries

Consolidated Statement of Earnings

	Year Ended May 31		
	1988	1987	1986
	(In millions except per share amounts)		
Net sales	**$6,190.6**	$6,127.8	$5,847.9
Costs and expenses:			
Cost of sales	**4,322.3**	4,292.2	4,102.6
Selling, general and administrative expenses	**1,399.2**	1,343.2	1,248.4
Restructuring charges	**215.3**	44.3	22.5
Interest expense, net	**97.8**	95.6	97.3
	6,034.6	5,775.3	5,470.8
Earnings before income taxes	**156.0**	352.5	377.1
Provision for income taxes	**86.7**	170.6	169.0
Net earnings	**$ 69.3**	$ 181.9	$ 208.1
Average number of shares outstanding	**86.0**	86.7	87.3
Earnings per share	**$ .81**	$ 2.10	$ 2.38

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

The Pillsbury Company and Subsidiaries

Consolidated Statement of Changes in Financial Position

	Year Ended May 31		
	1988	1987	1986
		(In millions)	
Funds from operations:			
Net earnings	**$ 69.3**	$ 181.9	$ 208.1
Charges to earnings not requiring working capital:			
Depreciation	**219.4**	197.6	175.3
Amortization of intangibles and other assets	**30.7**	23.9	20.2
Deferred income taxes	**(6.0)**	54.0	28.9
Write-down of noncurrent assets	**120.8**	17.4	5.1
	434.2	474.8	437.6
Funds from (used for) changes in working capital employed:			
Receivables	**(52.6)**	(30.0)	(109.2)
Inventories	**20.5**	(82.0)	(57.4)
Other current assets	**14.5**	(18.3)	(34.2)
Accounts and drafts payable	**(48.1)**	107.1	166.4
Advances on sales	**31.3**	22.3	57.0
Income taxes payable	**42.6**	(49.8)	21.4
Other current liabilities	**51.5**	4.9	124.5
	59.7	(45.8)	168.5
Funds from conversion of noncurrent assets:			
Disposals of property, plant and equipment	**21.1**	73.4	125.3
Proceeds from disposal of other assets	**30.1**	20.9	134.6
Other, net	**63.1**	16.9	40.6
	114.3	111.2	300.5
Total funds generated internally	**608.2**	540.2	906.6
Funds utilized for investment activities:			
Capital expenditures	**(300.0)**	(320.6)	(308.5)
Additions to other noncurrent assets	**(42.3)**	(25.7)	(51.8)
Noncurrent assets of acquired companies:			
Property, plant and equipment	**(24.0)**	(27.1)	(333.1)
Intangibles	**(15.0)**	(26.1)	(272.9)
Other assets	**(.3)**		(151.3)
	(381.6)	(399.5)	(1,117.6)
Net funds generated (used) before financing activities	**226.6**	140.7	(211.0)
Funds from (used for) financing activities:			
Issuance of long-term debt	**66.5**	121.5	454.5
Long-term debt of acquired companies	**.8**	11.1	155.3
Retirement of long-term debt	**(127.6)**	(179.8)	(282.8)
Increase (decrease) in notes payable	**(10.0)**	29.8	10.8
Income tax payments for tax lease	**(8.5)**	(21.4)	(15.0)
Issuance (purchase) of common stock, net	**(33.0)**	(34.4)	(2.0)
Cash dividends	**(93.4)**	(83.3)	(73.0)
	(205.2)	(156.5)	247.8
Increase (decrease) in cash and equivalents	**$ 21.4**	$ (15.8)	$ 36.8

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

The Pillsbury Company and Subsidiaries

Consolidated Balance Sheet

	May 31 1988	May 31 1987
	(In millions)	
Assets		
Current assets:		
Cash and equivalents	**$ 102.1**	$ 80.7
Receivables	**575.3**	522.7
Inventories	**551.7**	572.2
Advances on purchases	**39.2**	15.0
Prepaid expenses	**44.3**	83.0
Total current assets	**1,312.6**	1,273.6
Property, plant and equipment	**1,800.4**	1,834.7
Net investment in direct financing leases	**192.4**	200.0
Intangibles	**426.9**	436.8
Other assets	**107.7**	108.0
	$3,840.0	$3,853.1
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	**$ 41.9**	$ 51.9
Long-term debt, current portion	**40.1**	44.9
Accounts and drafts payable	**572.6**	620.7
Advances on sales	**145.0**	113.7
Employee compensation	**122.4**	121.7
Advertising and promotion	**93.4**	74.0
Income taxes payable	**42.6**	
Other liabilities	**247.1**	215.7
Total current liabilities	**1,305.1**	1,242.6
Long-term debt, noncurrent portion	**906.0**	951.8
Deferred income taxes	**221.6**	235.4
Other deferrals	**69.3**	44.4
Shareholders' equity:		
Preferred stock, no shares issued		
Common stock	**370.5**	370.4
Common stock in treasury	**(89.6)**	(58.7)
Accumulated earnings	**1,077.4**	1,103.7
Accumulated foreign currency translation	**(20.3)**	(36.5)
Total shareholders' equity	**1,338.0**	1,378.9
	$3,840.0	$3,853.1
Common shares outstanding	**85.4**	86.2

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

Summary by Industry Segment

	Year Ended May 31		
	1988	1987	1986
		(In millions)	
Net sales:			
Foods	**$3,560.2**	$3,363.4	$3,184.7
Restaurants	**2,630.4**	2,764.4	2,663.2
Total	**6,190.6**	6,127.8	5,847.9
Operating profit:			
Foods	**214.8**	246.1	206.9
Restaurants	**73.0**	219.2	304.7
Total	**287.8**	465.3	511.6
General corporate expense, net	**(34.0)**	(17.2)	(37.2)
Interest expense, net	**(97.8)**	(95.6)	(97.3)
Earnings before income taxes	**156.0**	352.5	377.1
Restructuring charges:			
Foods	**65.7**	23.8	12.6
Restaurants	**144.2**	17.0	8.8
Corporate	**5.4**	3.5	1.1
Total	**215.3**	44.3	22.5
Depreciation and amortization expense:			
Foods	**110.3**	90.4	72.4
Restaurants	**134.2**	126.0	111.0
Corporate	**5.6**	5.1	12.1
Total	**250.1**	221.5	195.5
Capital expenditures:			
Foods	**113.5**	124.7	75.5
Restaurants	**184.2**	195.3	225.3
Corporate	**2.3**	.6	7.7
Total	**300.0**	320.6	308.5
Identifiable assets:			
Foods	**1,883.8**	1,821.5	1,659.9
Restaurants	**1,819.9**	1,875.3	1,841.1
Corporate	**136.3**	156.3	157.8
Total	**3,840.0**	3,853.1	3,658.8
Foreign operations:			
Net sales	**840.4**	617.4	481.2
Operating profit	**29.9**	21.0	21.9
Restructuring charges	**16.3**	1.9	.1
Depreciation and amortization expense	**33.0**	19.7	12.5
Capital expenditures	**49.0**	53.4	30.8
Identifiable assets	**584.2**	462.8	347.0

Operating profit represents net sales less operating expenses, which include restructuring charges as well as all other gains, losses and expenses related to segment operations. General corporate expense includes unallocated items and equity in net earnings of unconsolidated affiliates. See Summary by Quarter on the following page. Identifiable assets include the estimated net realizable value of assets held for sale under the Company's restructuring program.

Summary by Quarter (Unaudited)

	Net sales	Gross margin	Earnings (loss) before income taxes	Net earnings (loss)	Per share: Net earnings (loss)	Per share: Cash dividends	Per share: Market price High	Per share: Market price Low	Per share: Market price Close
	(In millions)								
Fiscal 1988:									
First quarter	$1,455.9	$ 416.9	$ 97.0	$ 56.8	$ .66	$ .25	$48⅞	$38	$45⅞
Second quarter	1,685.4	542.0	127.4	72.5	.84	.28	48¾	28	30½
Third quarter (a)	1,495.7	449.6	(154.8)	(107.8)	(1.25)	.28	39	28⅜	36¾
Fourth quarter	1,553.6	459.8	86.4	47.8	.56	.28	45¾	34¾	37½
Annual	6,190.6	1,868.3	156.0	69.3	.81	1.09			
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(d)	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)(e)	1,456.7	430.9	92.5	55.4	.63	.215	35½	29¼	34⅝
Fourth quarter (f)	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			

Earnings (loss) before income taxes include:

Restructuring charges

(a) $215.3 million to sell the Godfather's Pizza, Bay Street, Key West Grill and Quik Wok restaurant chains; sell or close underperforming Steak and Ale and Bennigan's restaurants; modernize or close selected Burger King restaurants; reorganize Distron; close and consolidate several food manufacturing plants; exit five small product lines or businesses; and reduce headquarters staff in Foods [$140.9 million net earnings - $1.64 per share].

(b) $44.3 million for manufacturing plant consolidations, conversion of certain franchised Häagen-Dazs Ice Cream Shoppes to licensed operations, sale of selected restaurants and a reduction of headquarters staff in Restaurants [$21.6 million net earnings - 25 cents per share].

(c) $22.5 million to discontinue the J.J. Muggs restaurant concept, reflect a permanent impairment of the barge transportation business and recognize a headquarters early retirement program [$12.3 million net earnings - 14 cents per share].

Other unusual items

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

(e) $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].

(f) $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].

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.

Net sales

Net sales include trading margins rather than total sales, from merchandising grain, feed ingredients and export flour. Restaurant sales include royalties, operating lease rentals and development fee income from and food distribution sales to franchisees.

Income taxes

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 Tax Reform Act of 1986 was recorded as an increase in the Fiscal 1987 provision for income taxes. At May 31, 1988, federal taxes were not provided on approximately $113 million of unremitted earnings of foreign subsidiaries which management considers to be invested indefinitely.

The Company calculates deferred income taxes in accordance with the provisions of Accounting Principles Board Opinion No. 11. Statement of Financial Accounting Standards No. 96 requiring the liability method of accounting for income taxes was issued during December 1987. The Company has the option of implementing the Statement at any time through Fiscal 1990. Applying the liability method is expected to have a positive impact on earnings in the year the Statement is adopted. Previously issued financial statements will not be restated.

Earnings per share

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 currency translation

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.

Cash and equivalents

Cash and equivalents include short-term, highly liquid investments with original maturities of three months or less.

Inventories

Grain inventories, including open grain contracts, are stated at May 31 market prices. Other inventories are valued at the lower of cost or market with cost determined on a last-in, first-out (LIFO) method for domestic inventories and a first-in, first-out (FIFO) method for foreign inventories. If the FIFO method had been used for all nongrain inventories at May 31, 1988 and 1987, inventories would have been lowered by $1.0 million and $5.2 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 amortized using the straight-line method over the related lease terms.

Intangibles

Intangible assets consist primarily of goodwill, reacquired franchise rights and trademarks 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. Summary by industry segment

Industry segment data is included on page 22.

3. Summary by quarter (unaudited)

Interim results of operations are included on page 23.

4. Restructuring charges

Prior years' restructuring charges have been reclassified to conform to the Fiscal 1988 presentation, with no effect on previously reported net earnings or shareholders' equity. A summary of restructuring charges is included on page 23.

5. 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, 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
Net earnings				69.3		69.3
Translation adjustment					16.2	16.2
Cash dividends				(93.4)		(93.4)
Purchase of treasury stock	(1.2)		(43.0)			(43.0)
Stock issued for:						
Conversion of subordinated debentures		.1				.1
Stock option and performance unit plans	.4		12.1	(2.2)		9.9
Balances at May 31, 1988	85.4	$370.5	$(89.6)	$1,077.4	$(20.3)	$1,338.0

Authorized common stock totaled 200 million shares, without par value, with 88,088,951 shares, 88,084,294 shares and 87,997,718 shares issued at May 31, 1988, 1987 and 1986, respectively. Common stock in treasury, reported at cost, totaled 2,701,056 shares, 1,907,705 shares and 1,068,388 shares at May 31, 1988, 1987 and 1986, respectively. Authorized preferred stock totaled 500,000 shares, without par value, with no shares issued.

During Fiscal 1988, the Board of Directors authorized the Company to repurchase up to five million shares of its common stock, over time, through open market purchases, block transactions, or privately negotiated trades.

Each share of common stock is accompanied by one-half of a preferred stock purchase right. The rights become exercisable only after a party acquires 20 percent or more, or makes a tender offer for 30 percent or more, of the Company's common stock. When exercisable, each full right entitles the holder to purchase one two-hundredth of a share of Series C junior participating preferred stock at an exercise price of $200 or, under certain circumstances, securities of the acquiring party or the Company having a market value of twice the exercise price. The rights expire on January 21, 1996, if not previously redeemed by the Company.

6. 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.

Refer to page 23 for dispositions related to restructuring charges.

In addition, during the three-year period ended May 31, 1988, the Company acquired or disposed of other businesses, none of which were material.

7. Interest expense, net

	Year ended May 31		
	1988	1987	1986
	(In millions)		
Interest expense on:			
Long-term obligations	**$ 98.9**	$103.9	$108.7
Capital lease obligations	**8.1**	8.5	8.6
Short-term obligations	**33.3**	20.9	20.4
Capitalized interest	**(5.7)**	(3.4)	(3.9)
Interest income	**(10.3)**	(8.3)	(11.1)
Amortization of unearned income on direct financing leases	**(26.5)**	(26.0)	(25.4)
	$ 97.8	$ 95.6	$ 97.3

8. Income taxes

	Year ended May 31		
	1988	1987	1986
	(In millions)		
Earnings before income taxes consists of:			
Domestic	**$135.1**	$332.0	$353.8
Foreign	**20.9**	20.5	23.3
	$156.0	$352.5	$377.1
Income taxes consists of:			
Current:			
Federal	**$ 93.3**	$ 76.9	$127.4
Investment tax credit	**1.0**	2.7	(8.2)
	94.3	79.6	119.2
State	**13.3**	11.2	19.4
Foreign	**13.3**	7.4	6.9
	120.9	98.2	145.5
Deferred:			
Federal	**(30.6)**	63.1	16.8
State	**(3.8)**	8.1	2.7
Foreign	**.2**	1.2	4.0
	(34.2)	72.4	23.5
	$ 86.7	$170.6	$169.0

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	**$ 22.3**	$ 60.5	$ 32.0
Change in reserves not deductible currently for taxes	**(52.6)**	8.6	(7.2)
Installment sales	**(2.8)**	(1.9)	1.2
Other, net	**(1.1)**	5.2	(2.5)
	$(34.2)	$ 72.4	$ 23.5

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

Expected federal tax rate	**35.0%**	46.0%	46.0%
State income taxes, net of federal income tax benefit	**3.9**	3.0	3.2
Foreign income taxes	**4.2**	.3	.1
Restructuring charges	**5.5**		
Investment tax credit	**.6**	.8	(2.2)
Other, net	**6.4**	(1.7)	(2.3)
	55.6%	48.4%	44.8%

9. Current assets

	May 31 1988	1987
	(In millions)	
Receivables:		
Receivables	**$606.1**	$543.1
Less allowance	**(30.8)**	(20.4)
	$575.3	$522.7
Inventories:		
Finished products	**$347.9**	$333.8
Raw materials, containers and supplies	**164.0**	221.1
Grain	**39.8**	17.3
	$551.7	$572.2

10. Noncurrent assets

	May 31 1988	1987
	(In millions)	
Intangibles:		
Intangibles	**$ 517.6**	$ 501.5
Less accumulated amortization	**(90.7)**	(64.7)
	$ 426.9	$ 436.8
Property, plant and equipment:		
Land and improvements	**$ 286.4**	$ 271.5
Buildings and improvements	**1,398.9**	1,352.0
Machinery and equipment	**1,278.9**	1,144.4
	2,964.2	2,767.9
Less accumulated depreciation	**(1,163.8)**	(933.2)
	$ 1,800.4	$1,834.7

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

	Assets under capital leases 1988	1987	Assets leased to restaurant franchisees 1988	1987
	(In millions)			
Land and improvements			**$ 87.1**	$ 86.2
Buildings and improvements	**$ 62.3**	$ 67.4	**74.0**	67.4
Machinery and equipment	**11.6**	13.4	**2.8**	4.3
	73.9	80.8	**163.9**	157.9
Less accumulated depreciation	**(36.5)**	(36.7)	**(40.0)**	(35.5)
	$ 37.4	$ 44.1	**$123.9**	$122.4

11. Long-term debt

	May 31 1988	1987
	(In millions)	
11⅛% sinking fund debentures due 2015	**$128.4**	$128.4
10⅛% Euro bonds due 1993	**100.0**	100.0
6⅞% Deutsche Mark bonds due 1992	**78.9**	74.3
12% extendible notes due 1999	**100.0**	100.0
11½% notes due 1995	**100.0**	100.0
14% notes due 1991		50.0
Commercial paper supported by an unused long-term revolving credit agreement	**150.0**	100.0
Restaurant subsidiaries installment notes at 10⅞% and 11½% weighted average interest rates, respectively	**162.5**	201.1
Other notes at 10½% and 12½% weighted average interest rates, respectively (real estate of $97.6 million pledged as collateral)	**62.9**	72.2
Capital lease obligations	**63.4**	70.7
	946.1	996.7
Less current portion	**(40.1)**	(44.9)
	$906.0	$951.8

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 $191 million of accumulated earnings at May 31, 1988, 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, 1988, are: 1989 ($33.7 million); 1990 ($27.4 million); 1991 ($32.9 million); 1992 ($22.2 million); and 1993 ($101.9 million).

12. Financing commitments

Notes payable include $10.2 million and $30.4 million of commercial paper, and $31.7 million and $21.5 million of foreign subsidiaries' notes at May 31, 1988 and 1987, respectively. Notes payable at May 31, 1986, consist only of foreign subsidiaries' notes.

Selected information on notes payable is as follows:

	1988	1987	1986
		(In millions)	
At May 31:			
Amount	**$ 41.9**	$ 51.9	$ 22.1
Interest rate	**9.9%**	8.4%	10.8%
Largest month-end balance	**$441.4**	$383.1	$314.5
Weighted average balance	**325.0**	253.9	179.8
Average interest rate for year	**7.6%**	6.7%	8.0%

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, 1988, the Company had bank lines of credit of $431.7 million against which $31.7 million of subsidiaries' borrowings were outstanding. Certain bank lines require compensating balances which are not legally restricted.

In addition, the Company has two revolving credit agreements with several banks totaling $300 million. No borrowings were outstanding under these agreements at May 31, 1988 or 1987. The Company pays commitment fees on the unused portions of the commitments.

13. Other commitments and contingent liabilities

The Company and certain subsidiaries are parties to legal proceedings and guarantees of debt arising in the ordinary course of business. In addition, the Company and certain subsidiaries have sold, with limited recourse, notes receivable for $10.1 million and $26.5 million in Fiscal 1987 and 1986, respectively. The remaining uncollected balances at May 31, 1988 and 1987, were $31.2 million and $44.3 million, respectively. In the opinion of management, disposition of these matters will not materially affect the Company's consolidated financial position.

14. 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)	
1989	$ 32.2	$ 30.0
1990	32.5	29.5
1991	32.4	29.4
1992	31.7	29.0
1993	31.2	28.4
Later	282.2	261.1
	$442.2	$407.4

Net investment in direct financing leases at May 31:	**1988**	1987
	(In millions)	
Minimum future lease receipts	**$442.2**	$475.5
Allowance for uncollectables	**(4.2)**	(4.4)
Estimated unguaranteed residual value	**8.7**	5.0
Unearned amount representing interest	**(247.7)**	(271.0)
	199.0	205.1
Current portion included in receivables	**(6.6)**	(5.1)
Net investment in direct financing leases	**$192.4**	$200.0

	Year ended May 31		
Rental income:	**1988**	1987	1986
		(In millions)	
Minimum rental income	**$34.7**	$31.8	$31.7
Contingent rental income	**28.8**	30.1	32.3
	$63.5	$61.9	$64.0

15. 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 during the fiscal years ending May 31:	Capital leases	Operating leases (a)
	(In millions)	
1989	$ 13.4	$ 77.8
1990	12.5	68.3
1991	11.6	62.3
1992	10.8	57.5
1993	9.9	53.9
Later	52.0	532.7
Total minimum obligations (b)	110.2	852.5
Executory costs	(.5)	(3.0)
Net minimum obligations	109.7	$849.5(c)
Amount representing interest	(46.3)	
Present value of net minimum obligations	$ 63.4	
Current portion	$ 6.4	

(a) Does not include obligations under term freight agreements for 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 $423 million.

	Year ended May 31		
Rental expense:	**1988**	1987	1986
	(In millions)		
Minimum rental expense (a)	**$115.4**	$110.6	$112.2
Contingent rental expense	**12.8**	13.0	12.0
Transportation equipment sublease income	**(4.9)**	(6.9)	(5.9)
	$123.3	$116.7	$118.3

(a) Includes rentals under leases with terms of one year or less. Payments under term freight agreements of $16.4 million, $14.9 million, and $15.6 million for Fiscal 1988, 1987 and 1986, respectively, are not included.

16. Compensation plans

Stock options and performance units have been granted to officers and key employees under the Company's 1987 Long Term Incentive Compensation Plan and predecessor plans. Common stock reserved for issuance under these plans totaled 5,217,734 shares and 2,610,434 shares at May 31, 1988 and 1987, respectively. Future grants may also include stock appreciation rights and restricted stock.

No performance units were earned in Fiscal 1988. Awards covering 164,600 performance units were outstanding at May 31, 1988, and are payable, based upon the market value of the Company's common stock, at the end of the applicable award period if specified Company performance objectives are met.

Options outstanding are either nonqualified or incentive stock options granted at 100 percent of the grant date fair market value for a term of ten years. Incentive stock options granted under the 1987 Plan and all nonqualified stock options become exercisable in cumulative annual installments of 25 or 33 percent beginning one year after grant and all other incentive stock options become fully exercisable one year after grant.

	Option shares		
	Outstanding	Exercisable	Price range
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	6 - 44
Granted	483,900		34 - 43
Became exercisable		417,940	20 - 44
Exercised	(341,707)	(341,707)	6 - 40
Cancelled	(80,211)	(23,807)	
Balances at May 31, 1988	1,456,834	968,354	8 - 44

Under the Company's Savings Plan, eligible employees may elect to make deposits of up to ten percent of their earnings with the Company matching 50 percent of the deposits up to the first four percent of such earnings.

Expenses incurred under the above plans were $31.3 million, $33.8 million and $33.9 million in Fiscal 1988, 1987 and 1986, respectively.

17. Retirement plans

The Company and its domestic 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 funded status of the plans and the amounts recognized on the Consolidated Balance Sheet are as follows:

	May 31	
	1988	1987
	(In millions)	
Plan assets at fair value	**$ 435.9**	$ 454.9
Projected benefit obligation:		
Actuarial present value of vested benefits	**$(251.5)**	$(224.0)
Actuarial present value of nonvested benefits	**(49.9)**	(23.9)
Accumulated benefit obligation	**(301.4)**	(247.9)
Effect of projected future compensation increases	**(56.1)**	(71.8)
	$(357.5)	$(319.7)
Plan assets in excess of projected benefit obligation:		
Unrecognized transition asset(a)	**$ 61.1**	$ 70.4
Unrecognized net gain	**8.6**	62.7
Unrecognized prior service cost	**(3.8)**	(4.0)
Total unrecognized	**65.9**	129.1
Prepaid pension asset on the Consolidated Balance Sheet	**12.5**	6.1
	$ 78.4	$ 135.2

Net pension cost consists of:

	Year ended May 31		
	1988	1987	1986
		(In millions)	
Service cost - benefits earned during the year	**$ 12.5**	$ 11.9	$ 7.2
Interest cost on projected benefit obligation	**28.8**	25.5	23.9
Actual return on plan assets	**(.1)**	(81.7)	(96.3)
Deferred gain	**(37.5)**	49.0	66.8
Amortization of transition asset (a)	**(7.6)**	(8.1)	(7.8)
Net pension credit	**$ (3.9)**	$ (3.4)	$ (6.2)

(a) As of June 1, 1985, the date of adoption of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," the amount of 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, 1988 and 1987, 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 Tax Reform Act of 1986 requires certain changes to defined benefit retirement plans by Fiscal 1990, including the acceleration of vesting. In the opinion of management, these changes will not materially affect the Company's consolidated financial position.

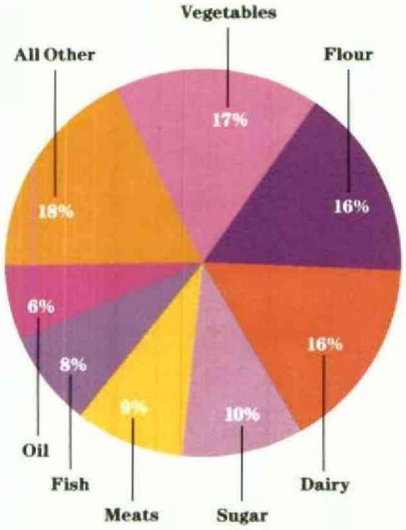
In addition to providing retirement income benefits, the Company and certain subsidiaries provide health care and life insurance benefits for eligible employees who reach retirement age while still working for the Company. The cost of such benefits is recognized as expense as claims are paid, which totaled $5.7 million, $5.1 million and $4.6 million in Fiscal 1988, 1987 and 1986, respectively.

Statistical Summary

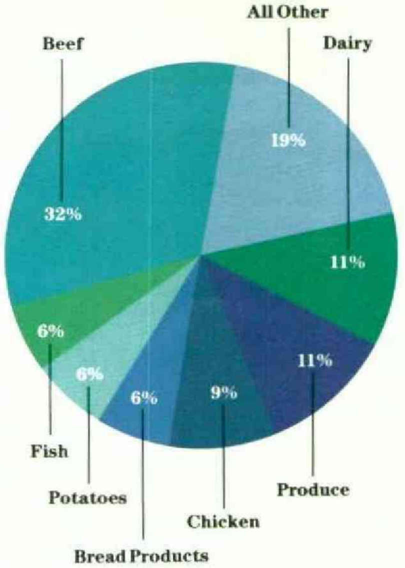
	Year ended May 31				
	1988	1987	1986	1985	1984
Restaurants					
Systemwide Sales (Billions) (a) (Including sales by franchised restaurants)	**$ 6.4**	$ 6.0	$ 5.5	$ 4.6	$ 4.0
Average Unit Sales (Thousands)					
Burger King USA	**$1,002**	$1,017	$1,014	$1,009	$ 944
Burger King International	**1,082**	992	942	879	881
Steak and Ale	**1,303**	1,379	1,502	1,518	1,484
Bennigan's	**2,151**	2,222	2,265	2,206	2,323
Number of Units					
Burger King USA	**5,020**	4,701	4,341	3,891	3,526
Burger King International	**558**	478	402	334	301
Steak and Ale	**165**	180	185	181	179
Bennigan's	**214**	207	196	177	148
	5,957	5,566	5,124	4,583	4,154
Discontinued Concepts	**597**	642	707	18	5
Total	**6,554**	6,208	5,831	4,601	4,159
Store Operating Profit (Company Stores)					
Burger King USA	**16.9%**	15.6%	15.2%	15.2%	16.7%
Burger King International	**12.3**	10.3	10.9	9.4	8.3
Steak and Ale	**15.1**	16.8	19.5	20.4	19.3
Bennigan's	**20.6**	21.9	23.0	22.4	22.0
Foods					
Unit Volume Increase	**1%**	6%	16%	9%	9%
Advertising and Promotion (Millions)	**$ 572**	$ 545	$ 526	$ 411	$ 333
Research and Development (Millions)	**$ 40**	$ 38	$ 35	$ 31	$ 28
Ingredient Cost Index (1982 = 100) (b)	**98**	95	92	101	105

(a) Includes systemwide sales by discontinued concepts (Godfather's Pizza, Bay Street, Key West Grill, Quik Wok and J.J. Muggs) of $291 million, $301 million and $276 million for Fiscal 1988, 1987 and 1986, respectively. Sales by discontinued concepts were insignificant prior to Fiscal 1986.
(b) U.S. Government Producer Price Index for Foodstuffs and Feedstuffs.

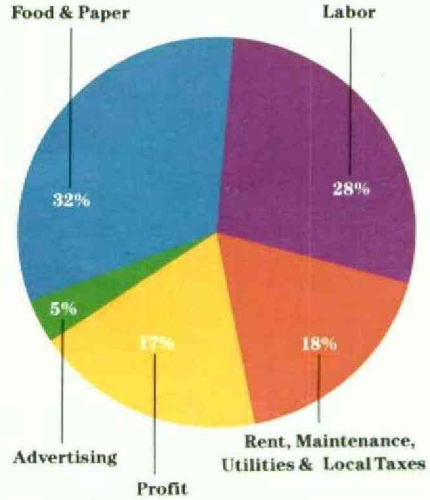
Domestic Consumer Foods Ingredient Costs
(% of Fiscal 1988 Food Purchases)



Restaurant Group Food Ingredient Costs
(% of Fiscal 1988 Food Costs)



Burger King Store Operating Profit and Costs at Average Company-Operated Restaurant
(% of Fiscal 1988 Sales Dollar)



Eleven Year Summary

Annual Growth Rates

10-Yr. 1978-1988	5-Yr. 1983-1988	1-Yr. 1987-1988		1988	1987	1986
			Operating results:			
13%	10%	1%	Net sales	**$ 6,190.6**	$ 6,127.8	$ 5,847.9
14	11	2	Gross margin	**1,868.3**	1,835.6	1,745.3
17	16	11	Depreciation	**219.4**	197.6	175.3
12	9	4	Research and development	**44.8**	43.2	41.4
16	12	3	Advertising and promotion	**653.9**	636.8	617.8
18	20	2	Interest, net	**97.8**	95.6	97.3
1	(7)	(56)	Earnings before income taxes	**156.0**	352.5	377.1
–	(13)	(62)	Net earnings	**69.3**	181.9	208.1
2	–	(1)	Average common shares outstanding	**86.0**	86.7	87.3
(2)	(13)	(61)	Net earnings per common share	**$ .81**	$ 2.10	$ 2.38
			Changes in financial position:			
13	12	(9)	Funds provided from operations	**$ 434.2**	$ 474.8	$ 437.6
			New investments-acquisitions	**39.3**	53.2	757.3
8	4	(6)	-capital expenditures	**300.0**	320.6	308.5
			-other	**42.3**	25.7	51.8
			Issuance of long-term debt	**66.5**	121.5	454.5
			Retirement of long-term debt	**127.6**	179.8	282.8
16	12	12	Cash dividends	**93.4**	83.3	73.0
13	12	13	Cash dividends per common share	**1.09**	.965	.84
			Financial position:			
7	5	3	Current assets	**$ 1,312.6**	$ 1,273.6	$ 1,159.1
14	11	(2)	Property, plant and equipment	**1,800.4**	1,834.7	1,763.2
12	10	–	Total assets	**3,840.0**	3,853.1	3,658.8
11	13	5	Current liabilities	**1,305.1**	1,242.6	1,135.5
12	8	(4)	Invested capital	**2,284.1**	2,375.6	2,339.2
12	9	(5)	Long-term debt, including current portion	**946.1**	996.7	1,025.0
11	7	(3)	Shareholders' equity	**1,338.0**	1,378.9	1,314.2
9	7	(2)	Equity per common share	**15.67**	16.00	15.12
			Statistics and ratios:			
			Gross margin to net sales	**30.2%**	30.0%	29.8%
			Net earnings to net sales	**1.1%**	3.0%	3.6%
			Pretax interest and rent coverage	**1.6**	2.4	2.4
			Pretax long-term interest coverage	**2.5**	4.2	4.3
			Long-term debt to total capitalization	**41.4%**	42.0%	43.8%
			Dividend payout	**134.8%**	45.8%	35.1%
			Return on average equity	**5.1%**	13.5%	16.8%
			Return on average invested capital	**5.6%**	10.1%	12.7%
			Market price of common stock-high	**$ 48⅞**	$ 46⅛	$ 40⅜
			-low	**28**	32⅜	24
			-close	**37½**	38¾	40⅛
			Shareholders of record (a)	**22,700**	22,800	21,300
			Employees	**101,800**	104,900	108,100

(a) Does not reflect the large number of employees (22,000 at May 31, 1988) individually holding and voting shares through Company benefit plans.

Year ended May 31

1985	1984	1983	1982	1981	1980	1979	1978
(In millions except per share, statistics and ratios, 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
1,377.9	1,219.8	1,096.4	995.4	914.2	850.3	627.8	497.8
133.9	114.6	105.5	92.8	89.4	78.4	55.2	44.4
37.1	34.7	29.8	25.9	21.3	19.4	17.3	14.5
473.7	390.6	378.7	360.5	314.6	286.3	183.3	142.6
53.0	44.2	39.4	39.3	65.6	58.2	26.5	19.0
340.2	303.7	230.2	228.0	201.9	191.8	160.3	142.1
191.8	169.8	138.9	136.3	119.6	104.7	83.5	72.5
86.8	86.9	86.9	86.7	80.4	80.2	72.3	70.1
$ 2.21	$ 1.95	$ 1.60	$ 1.57	$ 1.49	$ 1.31	$ 1.16	$ 1.04
$ 360.6	$ 312.5	$ 243.4	$ 247.6	$ 226.8	$ 182.1	$ 152.5	$ 129.5
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
78.0	50.7	36.0	54.8	30.6	12.6	29.5	21.7
219.3	54.2	30.2	35.2	98.3	79.3	154.8	63.3
132.5	65.1	73.7	47.7	37.9	28.7	15.8	30.9
65.8	58.9	52.5	47.2	38.7	33.5	26.4	21.4
.76	.68	.61	.55	.48	.42	.37	.31
$ 921.5	$1,071.8	$1,021.6	$1,133.0	$ 989.9	$ 938.8	$ 906.6	$ 680.6
1,403.0	1,193.0	1,053.2	1,009.0	950.6	857.4	741.5	486.5
2,778.5	2,608.3	2,366.6	2,428.3	2,174.5	1,983.7	1,804.5	1,282.8
744.1	886.4	704.9	816.5	687.6	680.1	629.8	461.9
1,853.9	1,643.6	1,561.6	1,538.0	1,404.9	1,246.8	1,109.3	763.8
688.5	597.4	605.2	648.0	657.7	582.3	531.6	311.7
1,165.4	1,046.2	956.4	890.0	747.2	664.5	577.7	452.1
13.43	12.11	11.05	10.26	9.30	8.29	7.37	6.46
28.4%	28.1%	28.5%	28.0%	26.4%	26.5%	27.8%	28.0%
4.0%	3.9%	3.6%	3.8%	3.4%	3.3%	3.7%	4.1%
2.8	2.7	2.3	2.3	2.2	2.3	3.0	3.6
6.2	5.5	4.4	4.4	4.7	5.1	5.6	6.3
37.1%	36.3%	38.8%	42.1%	46.8%	46.7%	47.9%	40.8%
34.3%	34.7%	37.8%	34.6%	32.4%	32.0%	31.6%	30.0%
17.3%	17.0%	15.0%	16.6%	16.9%	16.9%	16.2%	17.0%
12.9%	12.7%	11.2%	11.6%	11.1%	10.9%	10.8%	12.0%
$ 27½	$ 20¾	$ 15⅝	$ 11¾	$ 11½	$ 10⅝	$ 12	$ 10⅛
17¼	13⅞	9¼	8¾	7⅞	6¾	8	8⅜
27⅞	19	14⅜	11⅛	10¼	8	8⅛	9⅜
20,900	20,800	19,100	20,200	20,700	21,200	20,000	14,300
92,900	79,400	56,200	55,200	60,000	59,500	58,100	44,300

FOODS AND RESTAURANT OFFICERS

CONSUMER FOODS

Chairman
John L. Morrison

Vice Presidents
Brent D. Bailey
Dick I. Chung
Larry A. Constantineau
John E. Dixon
Diana L. Doshan
Gary M. Eastburn
William D. Howe
Linda B. Keene
Gary F. Klingl
Gerald T. Knight
Robert L. Lindsay, Jr.
Warren G. Malkerson
Russell S. Mentzer
Michael J. Paxton
William N. Priesmeyer
Rebecca K. Roloff
Anthony L. Scherber
Steven Schmidt
Rose W. Totino
Kenneth J. Valentas
Virginia L. Ward
David A. Webber
Larry G. Wheeler
Thomas N. Wilkolak
Carl Wilson

The Häagen-Dazs Company

President
Mark L. Stevens

Senior Vice President
Benton J. Silloway, Jr.

Vice Presidents
Michael L. Bailey
Beth L. Bronner
Robert G. Carr
Rodrick E. Heien
James E. Richards
Kevin J. Rogan
Samuel H. Yong

INTERNATIONAL FOODS

Chairman
Thomas R. McBurney

Vice Presidents
Jock A. Flournoy
John C. Lenker
Donald E. Loadman
Read D. McNamara
John H. Watson

Country Managers
Calvin Chan, Hong Kong
Hans-Joachim Denecke, West Germany
Michael S. Dingee, Venezuela
J. Thomas Kirchner, Mexico
Michael Ma, Taiwan
Don Moraza, Philippines
Bruce A. Noble, United Kingdom
Gerald A. O'Connor, Guatemala
Richard A. Peddie, Canada
John Ruland, Jamaica
Victor Scherrer, France/Belgium/Spain

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President
Russell J. Bragg

Vice Presidents
Donald E. Brummer
Philip J. Lindau
Daniel J. Locke
James A. Woerner

BURGER KING CORPORATION

President
Charles S. Olcott

Burger King USA

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C. Donald Dempsey
Matthew J. Fairbairn
Anthony M. Lavely
Mitchel E. Rhoads
Richard T. Snead
Joel J. Weiss

Senior Vice Presidents
Bradley R. Costello
Stephen A. Finn
George E. Mileusnic
Robert H. Sorensen

Region Vice Presidents
Raul Alvarez
Ronald S. Busch
Robert S. Hill
George E. Miller
Kevin K. Moriarty
Christy A. Placzek
Frank G. Rackstraw
James D. Stoops
Donald Wollan

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Oliver P. Brown
Robert B. Cathcart
Eugene D. Feola
Robert Forte
Paul R. Gershen
Thomas G. Kettinger
Michael H. McCaffrey
William H. Moon
Marc Weinstein

Burger King International

President
C. Ronald Petty

Region Vice Presidents
William G. Bullis
Thomas A. Morrell
John M. Rollo

Vice Presidents
Adalberto Feria
Timothy E. Johnson
Rafael M. Lavin
Jack Robinson
Peter W. Vandeweg

Distron

President
Thomas C. Highland

Senior Vice President
Donald G. Manson

Region Vice Presidents
David A. Brininger
Dennis R. Schlittenhardt
Robert H. Selby

Vice President
John E. Foley

CORPORATE AND STAFF OFFICERS

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President
Donald J. Slater

Executive Vice President
Roger F. Thomson

Senior Vice Presidents
F. Lane Cardwell
Nicholas A. Castaldo
J. Camp Fitch
Robert M. Hartnett
Robert S. Svehlak

Vice Presidents
Andrew J. Revella
Carolyn A. Skelley
Roy E. Study

Vice President, Quik Wok
Vanda M. Davey

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

Roger L. Headrick
Executive Vice President and Chief Financial Officer

Jerry W. Levin
Executive Vice President, Corporate Development and Chairman, S&A Restaurant Corp.

Thomas R. McBurney
Executive Vice President and Chairman, International Foods

John L. Morrison
Executive Vice President and Chairman, Consumer Foods

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

James R. Behnke
Senior Vice President, Technology

Richard T. Crowder
Senior Vice President and Corporate Risk Officer

Herbert D. Ihle
Senior Vice President, Controller and Treasurer

Timothy C. Sullivan
Senior Vice President, Human Resources

Russell J. Bragg
Vice President and President, Industrial Foods

John W. Argent
Vice President and Deputy Controller

Howard E. Bauman
Vice President, Science and Regulatory Affairs

John E. Bohan
Vice President, Pension Investments

Terry W. Bowmaster
Vice President, Strategic Planning

Thomas J. Cardinal
Vice President, Research and Development

Kim E. Cornell
Vice President and Assistant Treasurer

Michael D. Ellwein
Vice President and Assistant General Counsel

John M. Hammitt
Vice President, Information Management

Glenn W. Jeffrey
Vice President, Human Resources

Kenneth A. Johnson
Vice President and Tax Counsel

John T. Kirkland
Vice President, International Acquisitions

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

Charles H. McGill
Vice President, Mergers and Acquisitions

Jack H. Morris
Vice President, Investor Relations

Gerald L. Olson
Vice President, Government Relations

Dan C. Rengers
Vice President, Industrial Relations

Mahlon C. Schneider
Vice President and Assistant General Counsel

Kenneth D. Snider
Vice President, Quality Assurance

Johnny W. Thompson
Vice President, Public Relations

Ralph O. Thrane
Vice President, Industrial Foods Acquisitions and Analysis

Carol B. Truesdell
Vice President, Community Relations

Charles H. Gauck
Corporate Secretary

Barbara E. Buisman
Assistant Secretary

BOARD OF DIRECTORS

W. Michael Blumenthal, 2, 4
Chairman of the Board and
Chief Executive Officer,
Unisys Corporation
Blue Bell, Pa.

Donald F. Craib, Jr., 2, 4, 5
Retired Chairman of the Board,
Allstate Insurance Group
Pauma Valley, Calif.

Allen F. Jacobson, 1, 2, 3, 4
Chairman of the Board and
Chief Executive Officer,
Minnesota Mining and Manufacturing
Company
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
Minneapolis, Minn.

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

John H. Perkins, 3, 4, 6
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.

Dr. James J. Renier, 1, 4
President and Chief Executive Officer,
Honeywell Inc.
Minneapolis, Minn.

Robert A. Schoellhorn, 2, 4, 5
Chairman of the Board and
Chief Executive Officer,
Abbott Laboratories
North Chicago, Ill.

George J. Sella, Jr., 2, 4, 5
Chairman of the Board, President and
Chief Executive Officer,
American Cyanamid Company
Wayne, N. J.

William H. Spoor, 1, 2, 6
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.

Paul S. Gerot,
Chairman Emeritus
Minneapolis, Minn.

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

ANNUAL MEETING

Shareholders are invited to attend the Annual Meeting of The Pillsbury Company to be held at 2 p.m. on Tuesday, September 13, 1988, at the Guthrie Theater in Minneapolis.

STOCK LISTINGS

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

TRANSFER AGENT AND REGISTRAR

Morgan Shareholder Services Trust Company
30 West Broadway, Church Street Station
New York, NY 10007-2192
Telephone: (212) 587-6515

DIVIDEND REINVESTMENT

Shareholders are invited to participate in the Pillsbury Dividend Reinvestment Plan, which is administered by the Transfer Agent. Information is available by writing to the above address.

SHAREHOLDER INQUIRIES

- Questions concerning stock transfers, lost certificates and other shareholder account matters should be addressed to the Transfer Agent at the address or phone number above.
- Questions concerning the current progress of the Company or requests for Company publications should be addressed to the Investor Relations Department at Pillsbury's General Offices.

COMPANY PUBLICATIONS

In addition to the Annual Report, the Company publishes and makes available to shareholders without charge, the following documents:

- Form 10-K Annual Report, which is filed with the Securities and Exchange Commission.
- Quarterly Reports; the report for the first quarter contains a summary of Annual Meeting remarks and proceedings.
- Community Relations Annual Report, describing the Company's charitable contributions during the year and its guidelines for such contributions.

GENERAL OFFICES

Pillsbury Center
200 South Sixth Street
Minneapolis, MN 55402-1464
Telephone (612) 330-4966
Cable Address: PILLS MPLS.

The Pillsbury Company

Pillsbury Center

Minneapolis, Minnesota 55402