FILED PURSUANT TO RULE NO. 424(b)(1)
REGISTRATION NO. 333-57162

280,000,000 Shares

[KRAFT LOGO]

Kraft Foods Inc.

Class A Common Stock

This is our initial public offering and no public market currently exists for our shares.

We are currently a wholly-owned subsidiary of Philip Morris Companies Inc. Upon completion of this offering, Philip Morris will own 49.5% of our Class A common stock and 100% of our Class B common stock. Each share of Class A common stock has one vote and each share of Class B common stock has ten votes. Accordingly, following this offering, Philip Morris will own common stock representing 97.7% of the combined voting power of our common stock.

Our shares have been authorized for listing on the New York Stock Exchange under the symbol "KFT."

We have granted the underwriters an option to purchase up to an additional 28,000,000 shares of our Class A common stock to cover over-allotments.

Investing in our Class A common stock involves risks. See "Risk Factors" beginning on page 7.

	Per Share	Total
Initial public offering price............	$31.0000	$8,680,000,000
Underwriting discount....................	$ 0.8471	$ 237,181,000
Proceeds, before expenses, to Kraft......	$30.1529	$8,442,819,000

The underwriters expect to deliver the shares of Class A common stock on or about June 18, 2001.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston   Salomon Smith Barney

Deutsche Banc Alex. Brown
JPMorgan
Morgan Stanley Dean Witter
UBS Warburg

BNP PARIBAS   HSBC   Lehman Brothers

Blaylock & Partners, L.P.
Dresdner Kleinwort Wasserstein   Prudential Securities
Ramirez & Co., Inc.   Sanford C. Bernstein & Co., LLC
Utendahl Capital Partners, L.P.

Prospectus dated June 12, 2001

[Inside Front Cover Artwork and Graphics:

Approximately 1 1/2 inches down from the top of the page is written the following text centered on the page: "Our superior brand portfolio has seven brands with over $1 billion in sales . . .". Below the text appear the logos of our seven billion dollar brands: Philadelphia, Nabisco, Oscar Mayer, Kraft, Maxwell House, Jacobs and Post.]

[Front Gatefold Artwork and Graphics:

Across the top of the gatefold is written the following text: "........ and a total of sixty-one brands with over $100 million in sales, sold in over 140 countries." Below the text appear pictures of our products which represent our sixty-one brands with over $100 million in sales: A.1. steak sauce, Freia confectionery, Post cereal, Tang drink mix, Tombstone pizza, Cote d'Or candy, Knudsen sour cream, DiGiorno pizza, Sathers confectionery, Polly-O cheese, Newtons cookies, Cool Whip whipped toppings, Royal desserts, Kraft Minute Brand rice, Kraft Macaroni & Cheese Dinners, Oscar Mayer hot dogs, Nabisco Grahams crackers, Wheat Thins crackers, Original Milk-Bone Brand dog biscuits, Gevalia coffee, Kool-Aid drink mix, Jacobs coffee, Triscuit crackers, Jack's Pizza, Premium crackers, Oscar Mayer Lunchables Lunch Combinations, Breyer's All Natural Yogurt, Capri Sun All Natural juice drinks, Jacques Vabre coffee, Suchard confectionery, Miracle Whip dressing, Cracker Barrel cheese, Jell-O desserts, Ritz crackers, Oreo cookies, Milka confectionery, Louis Rich bacon, Planters nuts, Lacta confectionery, Stove Top Oven Classic stuffing mix, Kenco coffee, Handi-Snacks snack combinations, Maxwell House coffee, Claussen Cold Crisp Delicious pickles, Marabou confectionery, SnackWell's cookies, Chips Ahoy! cookies, Kaffee HAG coffee, Country Time drink mix, Crystal Light drink mix, Carte Noire coffee, Kraft Velveeta prepared cheese product, Philadelphia cream cheese, Altoids candy, General Foods International Coffees flavored coffees, Terry's chocolate, All Natural Breakstone's cottage cheese, Cheez Whiz process cheese sauce, Toblerone chocolate, Life Savers candy and Balance energy bars.]

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this document.

Dealer Prospectus Delivery Requirement

Through and including July 7, 2001 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding us and our Class A common stock being sold in this offering and our historical and pro forma combined financial statements included elsewhere in this prospectus.

KRAFT

We are the largest branded food and beverage company headquartered in the United States and the second largest in the world based on 2000 revenue on a pro forma basis for our acquisition of Nabisco. We have a superior brand portfolio created and supported through dynamic product innovation, worldclass marketing, experienced management, global scale and strategic acquisitions. Our brands are sold in more than 140 countries and, according to A.C. Nielsen, are enjoyed in 99.6% of the households in the United States. Consumers of all ages around the world enjoy our brands, whether at home or away from home, across the entire spectrum of food and beverage occasions: breakfast, lunch, dinner and snacks. We employ approximately 117,000 persons, including more than 20,000 salespersons deployed in 60 countries, and we have 228 manufacturing facilities around the world.

In December 2000, to expand our global presence and to strengthen our position in the fast growing snacks consumer sector, we acquired Nabisco Holdings Corp., the largest manufacturer and marketer of cookies and crackers in the world based on retail sales. Together with Nabisco, we would have reported 2000 pro forma revenue of $34.7 billion and 2000 pro forma earnings before interest, income taxes, depreciation and amortization of $6.3 billion.

We hold the #1 global share position in eleven product categories. In the United States, based on dollar shares, we hold the #1 share position in 23 of our 25 most profitable categories or, based on volume or equivalent unit shares, in 21 of these 25 categories. In addition, based on volume or equivalent unit shares, we hold the #1 share position in 21 of our 25 most profitable international country categories. Our portfolio includes 61 brands with 2000 revenue over $100 million, accounting for 75% of our 2000 pro forma revenue. Seven of our brands, listed below, had 2000 revenue over $1 billion, accounting for 40% of our 2000 pro forma revenue:

- Kraft--the #1 cheese brand in the world, as well as our best known brand for salad and spoonable dressings, packaged dinners, barbecue sauce and other products;

- Nabisco--the umbrella brand for the #1 cookie and cracker business in the world, including nine of our $100 million brands;

- Oscar Mayer--the #1 processed meats brand in the United States;

- Post--the #3 brand of ready-to-eat cereals in the United States;

- Maxwell House--one of the leading coffee brands in the world;

- Philadelphia--the #1 cream cheese brand in the world; and

- Jacobs--the #1 roast and ground coffee brand in Western Europe.

Kraft Foods North America accounted for $25.3 billion, or 73%, of our 2000 pro forma revenue. Kraft Foods International, which operates in 63 countries and sells its products in more than 140 countries, accounted for $9.4 billion, or 27%, of our 2000 pro forma revenue.

OUR GOALS, STRENGTHS AND STRATEGIES

Our Goals

Our long-term mission is to be recognized as the undisputed leader of the global food and beverage industry. To that end, we strive to be:

- the first choice of our consumers;
- an indispensable partner to our retailers and other customers;
- the most desired partner for strategic alliances;
- the employer of choice in our industry;
- a responsible citizen in our communities; and
- a consistent producer of industry-leading financial performance and returns for our investors.

Since 1998, our volume grew at a compound annual rate of 1.7%, our net earnings grew at a compound annual rate of 10.7% and our net earnings, excluding amortization of goodwill, grew at a compound annual rate of 8.0%. Our financial targets, which include the impact of the Nabisco acquisition, are to achieve the following growth rates versus 2000 pro forma as adjusted results over the next three years:

- compound annual volume growth between 3% and 4%;
- compound annual net earnings growth between 18% and 22%; and
- compound annual net earnings growth, excluding amortization of goodwill, between 14% and 16%.

Net earnings amounts reflect the application of the net proceeds from this offering of approximately $8.4 billion to retire a portion of our $11.0 billion long-term note payable to Philip Morris.

Our Strengths

Our strengths are:

- our superior brand portfolio--our brands enjoy consumer loyalty, trust and satisfaction, and offer our retail customers a strong combination of growth and profitability;
- our innovative products supported by worldclass marketing--we nurture the growth of our brands by developing new and innovative products and line and geographic extensions and supporting them with effective advertising and promotions;
- our successful portfolio management--a key contributor to our growth and financial returns has been our proven ability to strengthen our portfolio through acquisitions and divestitures;
- our global scale--our size and scope enable us to be more efficient and effective in serving our customers worldwide and to expand our brands geographically while reducing costs and improving productivity and margins; and
- our management's proven ability to execute--we have an experienced management team committed to achieving superior performance.

Our Strategies

We intend to create superior value for our investors by continuing to execute our proven growth and operating strategies. We achieve significant benefits from our scale by applying the following strategies across our entire global organization:

- accelerate growth of core brands--grow our brands by:
  - focusing on consumer sectors with attractive growth characteristics;
  - addressing consumer needs, including convenience and health and wellness;
  - expanding our presence in faster growing distribution channels; and
  - targeting attractive demographic and economic segments in each market;
- drive global category leadership--attain and expand the leading position in our core categories across our key markets in order to capture a higher share of each category's growth and profit;
- optimize our portfolio--actively manage our business and brand portfolio through acquisitions, divestitures and licensing arrangements to improve the growth profile and profitability of our business;
- maximize operating efficiency--drive excess costs and unproductive assets out of our system and realize synergies from our acquisition of Nabisco, while emphasizing product quality and customer service; and
- build employee and organizational excellence--invest significant resources in training, development and career management and utilize employee measurement and compensation systems, all designed to achieve our success in the marketplace.

Our principal executive offices are located at Three Lakes Drive, Northfield, Illinois 60093 and our telephone number is (847) 646-2000.

THE OFFERING

Class A common stock offered	280,000,000 shares
Common stock to be outstanding immediately after this offering	
Class A	555,000,000 shares
Class B	1,180,000,000 shares
Common stock to be held by Philip Morris immediately after this offering	
Class A	275,000,000 shares (49.5% of outstanding)
Class B	1,180,000,000 shares (100% of outstanding)
Common stock voting rights	
Class A	One vote per share
Class B	Ten votes per share
Use of proceeds	We intend to use the net proceeds of the offering to retire a portion of our long-term notes payable to Philip Morris.
Dividend policy	We intend to pay regular quarterly dividends on our Class A and Class B common stock at the initial annual rate of $0.52 per share, depending on our financial results and action by our board of directors.
New York Stock Exchange symbol	KFT
Risk factors	See "Risk Factors" and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our Class A common stock.

The number of shares of Class A common stock to be outstanding after this offering excludes:

- 28,000,000 shares issuable upon exercise of the underwriters' over-allotment option;
- 21,322,596 shares issuable upon exercise of employee stock options to be granted by us concurrently with this offering at an option price equal to the initial public offering price on the cover page of this prospectus; and
- 54,612,904 additional shares available for future issuance under our stock option and incentive plans.

OUR RELATIONSHIP WITH PHILIP MORRIS

We are currently a wholly-owned subsidiary of Philip Morris Companies Inc. Upon completion of this offering, Philip Morris will own 49.5% of our outstanding Class A common stock, or 47.2% if the underwriters exercise their over-allotment option in full, and 100% of our outstanding Class B common stock, giving it 97.7% of the combined voting power of our outstanding common stock, or 97.5% if the underwriters exercise their over-allotment option in full. Philip Morris will have the ability to direct the election of members of our board of directors and to determine the outcome of other matters submitted to the vote of our shareholders.

Philip Morris has advised us that its current intent is to continue to hold all of our common stock owned by it following this offering, other than shares of our Class A common stock subject to stock options granted by Philip Morris to its employees. However, Philip Morris is not subject to any contractual obligation to maintain its share ownership, except that Philip Morris has agreed not to sell or otherwise dispose of any shares of our common stock for a period of 180 days after the date of this prospectus without the prior written consent of the underwriters.

SUMMARY HISTORICAL AND PRO FORMA COMBINED FINANCIAL AND OTHER DATA

The following table presents our summary historical and pro forma combined financial and other data and should be read along with "Pro Forma Condensed Combined Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Kraft combined financial statements, the Nabisco consolidated financial statements, and the accompanying notes to those statements included in this prospectus.

On December 11, 2000, we acquired all of the outstanding shares of Nabisco for $55 per share in cash. We have accounted for the acquisition as a purchase. Nabisco's balance sheet has been consolidated with our balance sheet as of December 31, 2000; however, Nabisco's earnings from December 11, 2000 through December 31, 2000, have not been included in our combined operating results because the amounts were insignificant. Our interest cost of $65 million associated with acquiring Nabisco has been included in interest and other debt expense, net, in our combined statement of earnings for the year ended December 31, 2000. Nabisco's earnings have been included in our combined operating results for the first quarter of 2001.

Our pro forma results of operations data present:

- our pro forma results of operations for the year ended December 31, 2000, as if the acquisition of Nabisco had occurred on January 1, 2000; and

- our pro forma as adjusted results of operations for the year ended December 31, 2000, as if this offering had been completed on January 1, 2000, at the initial public offering price of $31.00 per share and assuming the underwriters do not exercise their over-allotment option, with the net proceeds being used to retire a portion of our $11.0 billion long-term note payable to Philip Morris.

Our as adjusted balance sheet and statement of earnings data as of March 31, 2001 and for the quarter ended March 31, 2001, present, using the same assumptions and application of the net proceeds described above:

- our as adjusted financial position as of March 31, 2001, as if this offering had been completed on March 31, 2001; and

- our as adjusted results of operations for the quarter ended March 31, 2001, as if this offering had been completed on January 1, 2001.

Our pro forma and as adjusted results are not necessarily indicative of what actually would have occurred if the acquisition had been consummated, and this offering had been completed, on the dates indicated, nor are they necessarily indicative of our future operating results.

We define EBITDA as earnings before interest and other debt expense, net; provision for income taxes; depreciation; and amortization. We believe that EBITDA is a measure commonly used by analysts and investors. Accordingly, we have disclosed this information to permit a more complete analysis of our operating performance. EBITDA should not be considered in isolation or as a substitute for net earnings or other results of operations data or cash flow data prepared in accordance with accounting principles generally accepted in the United States as a measure of our profitability or liquidity. EBITDA, as we calculate it, may not be comparable to similarly titled measures reported by other companies.

We define operating companies income as operating income before amortization of goodwill and corporate expenses. We use this measure to report our segment profitability under accounting principles generally accepted in the United States.

We also evaluate our operating results and the performance of our businesses by reviewing underlying results, including underlying operating revenue, underlying operating companies income and underlying operating companies income margin. Underlying results reflect the results of our business operations, excluding significant one-time items for employee separation programs, write-downs of property, plant and equipment, estimated sales made in advance of the century date change and gains (losses) on sales of businesses. Underlying results also exclude the operating results of businesses that have been sold. Accordingly, we have disclosed underlying results to permit a more complete analysis of our operating performance. Underlying operating companies income should not be considered in isolation or as a substitute for net earnings or other results of operations data prepared in accordance with accounting principles generally accepted in the United States.

We calculate operating companies income margin by dividing operating companies income by operating revenue. We calculate underlying operating companies income margin by dividing underlying operating companies income by underlying operating revenue.

	Year Ended December 31,					First Quarter Ended March 31,		
	1998	1999	2000	Pro Forma 2000	Pro Forma as Adjusted 2000	2000	2001	as Adjusted 2001
	(in millions, except per share data)							
Statement of Earnings Data:								
Operating revenue......	$27,311	$26,797	$ 26,532	$34,679	$34,679	$ 6,460	$ 8,367	$ 8,367
Cost of sales..........	15,544	14,573	13,917	18,266	18,266	3,381	4,267	4,267
Gross profit.........	11,767	12,224	12,615	16,413	16,413	3,079	4,100	4,100
Marketing, administration and research costs........	7,688	8,106	8,068	10,890	10,890	2,017	2,768	2,768
Amortization of goodwill.............	544	539	535	961	961	133	240	240
Operating income.....	3,535	3,579	4,012	4,562	4,562	929	1,092	1,092
Interest and other debt expense, net.....	536	539	597	2,002	1,348	127	482	318
Earnings before income taxes........	2,999	3,040	3,415	2,560	3,214	802	610	774
Provision for income taxes.................	1,367	1,287	1,414	1,156	1,427	332	284	360
Net earnings.........	$ 1,632	$ 1,753	$ 2,001	$ 1,404	$ 1,787	$ 470	$ 326	$ 414
Basic and diluted earnings per share....	$ 1.12	$ 1.20	$ 1.38	$ 0.96	$ 1.03	$ 0.32	$ 0.22	$ 0.24
Weighted average number of shares......	1,455	1,455	1,455	1,455	1,735	1,455	1,455	1,735
Balance Sheet Data:								
Goodwill, net of accumulated amortization..........	$16,408	$15,296	$ 31,584			$15,337	$31,423	$31,423
Total assets...........	31,391	30,336	52,071			30,456	52,053	52,053
Short-term borrowings, including current maturities............	109	105	859			121	493	493
Long-term notes payable to Philip Morris................	6,234	6,602	21,407			6,488	21,390	12,956
Other long-term debt...	483	433	2,695			425	2,721	2,721
Shareholders' equity...	15,134	13,461	14,048			13,847	14,321	22,755
Cash Flow Data:								
Cash provided by (used in):								
Operating activities.........	$ 2,324	$ 2,693	$ 3,254			$ 548	$ 2	
Investing activities.........	(763)	(669)	(16,138)			(440)	(194)	
Financing activities.........	(1,565)	(2,031)	12,982			(72)	164	
Depreciation and amortization..........	1,038	1,030	1,034	$ 1,722	$ 1,722	260	425	$ 425
Capital expenditures...	(841)	(860)	(906)	(1,151)	(1,151)	(120)	(174)	(174)
Other Data:								
Volume (in pounds).....	12,694	12,817	13,130	17,613	17,613	3,113	4,280	4,280
EBITDA................	$ 4,573	$ 4,609	$ 5,046	$ 6,284	$ 6,284	$ 1,189	$ 1,517	$ 1,517

Corporate expenses.....	103	135	208	208	208	51	50	50
Operating companies income:								
Reported.............	4,182	4,253	4,755	5,731	5,731	1,113	1,382	1,382
Underlying...........	4,108	4,308	4,620	5,620	5,620	1,142	1,411	1,411
Operating companies income margin:								
Reported.............	15.3%	15.9%	17.9%	16.5%	16.5%	17.2%	16.5%	16.5%
Underlying...........	15.3	16.4	17.4	16.3	16.3	17.6	16.9	16.9

RISK FACTORS

You should carefully consider the risks described below and the other information in this prospectus before deciding to invest in shares of our Class A common stock. If any of the following risks actually occurs, our business, financial condition and results of operations could suffer, in which case the trading price of our Class A common stock could decline.

Risks Related to Our Business and Industry

We may be unable to maintain our profit margin in the face of a consolidating retail environment.

Our 15 largest customers together accounted for approximately 40% of our 2000 pro forma revenue. As the retail grocery trade continues to consolidate and our retail customers grow larger and become more sophisticated, our retail customers demand lower pricing and increased promotional programs. Further, these customers are reducing their inventories and increasing their emphasis on private label products. If we fail to use our scale, marketing expertise, unique products and category leadership positions to respond to these trends, our volume growth could slow or we may need to lower our prices or increase promotional support of our products, any of which would adversely affect our profitability.

We may be unable to offset the reduction in volume and revenue resulting from our participation in categories experiencing declining consumption rates.

The coffee, dry packaged desserts, powdered soft drinks, ready-to-eat cereals and stuffing categories in the United States, which together accounted for approximately 10% of our 2000 pro forma revenue, have experienced declining consumption rates since 1997, averaging 1.8% per year. This decline is due in part to consumer trends toward more convenient foods. Many of our products require some preparation before they are consumed. Our success depends in part on our ability to execute our strategy of continuously improving our portfolio of brands and satisfying consumer preferences for convenience. If we do not succeed, our volume, revenue and operating companies income will not increase sufficiently to enable us to achieve our financial targets.

If we are not an efficient producer, our profitability will suffer as a result of the highly competitive environment in which we operate.

Our success depends in part on our ability to be an efficient producer in a highly competitive industry. Our ability to reduce costs further is limited to the extent efficiencies have already been achieved. Our failure to reduce costs through productivity gains or by eliminating redundant costs resulting from acquisitions would weaken our competitive position.

We may be unable to anticipate changes in consumer preferences, which may result in decreased demand for our products.

Our success depends in part on our ability to anticipate the tastes and dietary habits of consumers and to offer products that appeal to their preferences. Consumer preferences change and our failure to anticipate, identify or react to these changes could result in reduced demand for our products, which would in turn cause our volume, revenue and operating companies income to suffer.

We may be unable to add products that are in faster growing and more profitable categories.

The food industry's growth potential is constrained by population growth, which has been limited to an annual average increase of 1.1% in North America and 1.3% globally since 1996. Our success depends in part on our ability to grow our business faster than populations are growing in the markets that we serve. One way to achieve that growth is to enhance our portfolio by adding products that are in faster growing and more profitable categories. If we do not succeed in making these enhancements, our volume growth may slow, which would adversely affect our profitability.

We have only recently acquired Nabisco and may not be able to successfully integrate its operations and achieve our anticipated cost synergies and new product opportunities.

Although Kraft and Nabisco have each operated separately for many years, Kraft only recently began to operate the businesses as a combined entity. There can be no assurance that we will be able to successfully integrate our business with Nabisco in order to achieve anticipated cost synergies. Our failure to successfully integrate could have a material adverse effect on our operating companies income.

A strengthening United States dollar reduces our reported results of operations from our international business.

In 2000, we derived approximately 32% of our pro forma revenue from sales in foreign currencies. In our combined financial statements, we translate local currency financial results into United States dollars based on average exchange rates prevailing during a reporting period. During times of a strengthening United States dollar, our reported international revenue and earnings will be reduced because the local currency will translate into fewer United States dollars.

We are major purchasers of many commodities that we use for raw materials and packaging, and price changes for the commodities we depend on may adversely affect our profitability.

The raw materials used in our business are largely commodities that experience price volatility caused by external conditions, commodity market fluctuations, currency fluctuations and changes in governmental agricultural programs. Commodity price changes may result in unexpected increases in raw material and packaging costs, and we may be unable to increase our prices to offset these increased costs without suffering reduced volume, revenue and operating companies income. We do not fully hedge against changes in commodity prices and our hedging procedures may not work as planned.

We may be unable to pass on increased costs we incur due to changes in laws and regulations without incurring volume loss as a result of our higher prices.

Various governments throughout the world are considering regulatory proposals relating to genetically modified organisms or ingredients, food safety and market and environmental regulation which, if adopted, would increase our costs. If any of these or other proposals are enacted, we may experience a disruption in supply and we may be unable to pass on the cost increases to our customers without incurring volume loss as a result of our higher prices.

Economic downturns could cause consumers to shift their food purchases from our higher priced premium products to lower priced items.

The willingness of consumers to purchase premium branded food and beverage products depends in part on local economic conditions. In periods of economic uncertainty, consumers tend to purchase more private label or other economy brands and our volume could suffer accordingly.

Concerns with the safety and quality of food products could cause consumers to avoid our products.

We could be adversely affected if consumers in our principal markets lose confidence in the safety and quality of certain food products. Adverse publicity about these types of concerns, like the recent publicity about genetically modified organisms and "mad cow disease" in Europe, whether or not valid, may discourage consumers from buying our products or cause production and delivery disruptions.

If our food products become adulterated or misbranded, we would need to recall those items and may experience product liability claims if consumers are injured as a result.

We may need to recall some of our products if they become adulterated or misbranded. We may also be liable if the consumption of any of our products causes injury. A widespread product recall or a significant product liability judgment against us could cause products to be unavailable for a period of time and a loss of consumer confidence in our food products and could have a material adverse effect on our business.

We could be liable for income taxes owed by the consolidated group of Nabisco's former parent.

Before we acquired Nabisco, it was a member of the consolidated group of Nabisco Group Holdings Corp. Each member of that consolidated group is jointly and severally liable for the federal income tax liability of each other member of the group. Consequently, Nabisco could be liable in the event any such liability is incurred, and not discharged, by any other member of the Nabisco Group Holdings Corp. consolidated group. Disputes or assessments could arise during future audits by the Internal Revenue Service in amounts that we cannot quantify.

Risks Related to Our Relationship with Philip Morris

Because Philip Morris controls substantially all the voting power of our common stock, investors will not be able to affect the outcome of any shareholder vote.

Following this offering, Philip Morris will own 49.5% of our outstanding Class A common stock, or 47.2% if the underwriters exercise their over-allotment option in full, and 100% of our outstanding Class B common stock. Our Class A common stock has one vote per share while our Class B common stock has ten votes per share. As a result, Philip Morris after this offering will control 97.7% of the combined voting power of all of our outstanding common stock, or 97.5% if the underwriters exercise their over-allotment option in full. For as long as Philip Morris continues to own shares of common stock representing more than 50% of the combined voting power of our common stock, it will be able to direct the election of all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our shareholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on common stock. Philip Morris will also have the power to prevent or cause a change in control, and could take other actions that might be favorable to Philip Morris but not to Kraft.

Because Philip Morris will control us, conflicts of interest between Philip Morris and us could be resolved in a manner unfavorable to us.

Various conflicts of interest between Kraft and Philip Morris could arise including, but not limited to, the following areas:

Cross Directorships and Stock Ownership. Ownership interests of directors or officers of Kraft in the common stock of Philip Morris or service as a director or officer of both Kraft and Philip Morris could create or appear to create potential conflicts of interest when directors and officers are faced with decisions that could have different implications for the two companies. For example, these decisions could relate to:

- the nature, quality and cost of services rendered to us by Philip Morris;
- disagreement over the desirability of a potential acquisition opportunity;
- employee retention or recruiting;
- the timing of repayments of our indebtedness to Philip Morris; or
- our dividend policy.

Control of Tax Decisions. Under our tax-sharing agreement with Philip Morris, Philip Morris has sole authority to respond to and conduct all income tax proceedings, including tax audits, relating to Kraft, to file all income tax returns on behalf of Kraft, and to determine the amount of Kraft's liability to, or entitlement to payment from, Philip Morris under the tax-sharing agreement. This arrangement may result in conflicts of interest between Kraft and Philip Morris. For example, under the tax-sharing agreement, Philip Morris may choose to contest, compromise or settle any adjustment or deficiency proposed by the relevant taxing authority in a manner that may be beneficial to Philip Morris and detrimental to Kraft.

We could be liable for income taxes owed by Philip Morris.

Each member of the Philip Morris consolidated group, which includes Philip Morris, our company, and Philip Morris' other subsidiaries, is jointly and severally liable for the federal income tax liability of each other member of the consolidated group. Consequently, we could be liable in the event any such liability is incurred, and not discharged, by any other member of the Philip Morris consolidated group. Disputes or assessments could arise during future audits by the Internal Revenue Service in amounts that we cannot quantify.

Future sales or distributions of our shares by Philip Morris could depress the market price for shares of our Class A common stock.

After completion of this offering, Philip Morris may sell all or part of the shares of our common stock that it owns or distribute those shares to its shareholders. Sales or distributions by Philip Morris of substantial amounts of our common stock in the public market or to its shareholders could adversely affect prevailing market prices for our Class A common stock. Philip Morris has advised us that it intends to continue to hold all of our common stock that it owns following this offering, other than shares of our Class A common stock subject to stock options granted by Philip Morris to its employees. However, Philip Morris is not subject to any contractual obligation to maintain its ownership position in our shares, except that it has agreed not to sell or otherwise dispose of any of our shares of common stock for a period of 180 days after the date of this prospectus without the prior written consent of the underwriters. Consequently, we cannot assure you that Philip Morris will maintain its ownership of our common stock after the 180 day period following this offering.

Investor perception that Philip Morris may be required to sell shares of our common stock owned by it to satisfy liabilities related to tobacco litigation may depress the price of our shares.

Our shares could be discounted in the marketplace because of investor concern that our principal shareholder, Philip Morris, may face significant liabilities relating to tobacco litigation. See "Relationship with Philip Morris--Litigation Against Philip Morris" on page 91.

Stock Market Risk

The market price of our Class A common stock may be volatile, which could cause the value of your investment to decline.

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our Class A common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response, the market price of our Class A common stock could decrease significantly. You may be unable to resell your shares of our Class A common stock at or above the initial public offering price.

Some shares in this offering may have been offered in violation of the Securities Act of 1933, which could give certain purchasers of these shares the right to seek refunds or damages.

Prior to the effectiveness of the registration statement covering the shares of our Class A common stock being sold in this offering, some of the underwriters of this offering provided written copies of a "pre-marketing feedback" form to certain potential purchasers of our Class A common stock. The feedback form was for internal use only and was designed to elicit orally certain information from designated accounts as part of designing strategy in connection with this offering. This form may constitute a prospectus that does not meet the requirements of the Securities Act of 1933. We urge all persons to read and base their investment decision only on the preliminary prospectus, dated May 21, 2001, and the final prospectus dated the date hereof.

If the distribution of this form by the underwriters did constitute a violation of the Securities Act of 1933, persons who received this form, directly or indirectly, and who purchased our Class A common stock in this offering may have the right, for a period of one year from the date of the violation, to obtain recovery of the consideration paid in connection with their purchase of our Class A common stock or, if they had already sold the stock, attempt to recover losses resulting from their purchase of our Class A common stock. We do not believe that any attempts to rescind these purchases or to recover these losses will have a material adverse effect on our financial position.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the matters discussed under the captions "Prospectus Summary," "Risk Factors," "Pro Forma Condensed Combined Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this prospectus include forward-looking statements. You can identify these forward-looking statements by the use of words like "strategy," "expects," "plans," "believes," "will," "estimates," "intends," "projects," "goals," "targets" and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. We are identifying below important factors that could cause actual results and outcomes to differ materially from those contained in any forward-looking statement. Any such statement is qualified by reference to the following cautionary statement.

Demand for our products is subject to intense competition, changes in consumer preferences and local economic conditions. In order to compete effectively against lower priced products in a consolidating environment at the retail and manufacturer levels, our results are dependent upon our continued ability to:

- promote our brands successfully;
- anticipate and respond to new consumer trends;
- develop new products and markets;
- broaden our brand portfolio;
- improve productivity; and
- respond to changing prices for our raw materials.

Our results are also dependent upon our ability to successfully integrate and derive cost savings from the integration of Nabisco's operations with ours. In addition, we are subject to the effects of foreign economies and currency movements. Developments in any of these areas could cause our results to differ materially from results that have been or may be projected.

We caution you that the above list of important factors is not exclusive, and other factors are discussed in more detail under "Risk Factors" in this prospectus. These forward-looking statements are made as of the date of this prospectus.

ABOUT THIS PROSPECTUS

Trademarks and servicemarks in this prospectus appear in bold italic type and are the property of or licensed by our subsidiaries.

In this prospectus, we rely on and refer to statistics regarding the food industry. Where specified, these statistics reflect our own internal estimates. Otherwise, we obtained these statistics from various third party sources that we believe are reliable, but we have not independently verified the statistics. Unless otherwise specified, information concerning category shares of our brands and category and market size has been obtained from A.C. Nielsen for Kraft brands, other than Nabisco brands, sold in the United States and from Information Resources Inc. for Nabisco brands sold in the United States. Unless otherwise specified, information concerning category shares of our brands outside of the United States and global data have been obtained from A.C. Nielsen or Euromonitor International. Information concerning international category and market size has been obtained from A.C. Nielsen or Euromonitor International. Unless otherwise specified, all share information is based on dollar shares, pounds or equivalent units as indicated and is for the year 2000 or for the year 1999 if 2000 data are unavailable.

Kraft Foods Inc. is a holding company incorporated in Virginia on December 7, 2000. Its two principal subsidiaries are Kraft Foods North America, Inc., which conducts our food business in the United States, Canada and Mexico, and Kraft Foods International, Inc., which conducts our food business in the rest of the world. In this prospectus, we use the terms "Kraft," "we," "our" and "us" when we do not need to distinguish among these entities or when any distinction is clear from the context. Otherwise, we use the terms "Kraft Foods Inc.," "Kraft Foods North America" and "Kraft Foods International." The term "Philip Morris" refers to our parent, Philip Morris Companies Inc. The term "Nabisco" refers to Nabisco Holdings Corp. and its subsidiaries, which we acquired in December 2000.

USE OF PROCEEDS

Our net proceeds from this offering will be approximately $8.4 billion, based on the initial public offering price of $31.00 per share and after deducting the underwriting discount and estimated offering expenses payable by us. If the underwriters' over-allotment option is exercised in full, our net proceeds will be approximately $9.3 billion.

We will use the net proceeds from this offering to retire a portion of an $11.0 billion 7.75% note payable to Philip Morris, due in December 2002, incurred in connection with the Nabisco acquisition.

DIVIDEND POLICY

Our board of directors currently intends to pay regular quarterly dividends on our Class A common stock and Class B common stock at an initial annual rate of $0.52 per share. The first dividend is expected to be declared during the third quarter of 2001 and to be payable in October 2001. The declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our board of directors.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2001. We have presented our capitalization:

- on an actual basis; and
- on an as adjusted basis to reflect our receipt and use of the net proceeds from the sale of 280,000,000 shares of Class A common stock in this offering at the initial public offering price of $31.00 per share and the use of the net proceeds to retire a portion of our $11.0 billion long-term note payable to Philip Morris.

You should read the information set forth below together with "Prospectus Summary--Summary Historical and Pro Forma Combined Financial and Other Data," "Pro Forma Condensed Combined Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Kraft combined financial statements, the Nabisco consolidated financial statements, and the accompanying introductions and notes to those statements included elsewhere in this prospectus.

	As of March 31, 2001	
	Actual	As Adjusted
	(in millions)	
Short-term borrowings, including current maturities	$ 493	$ 493
Short-term obligation payable to Philip Morris	1,616	1,616
Long-term notes payable to Philip Morris	21,390	12,956
Other long-term debt	2,721	2,721
Total debt	26,220	17,786
Shareholders' equity:		
Preferred stock, no par value, 500,000,000 shares authorized; none issued and outstanding		
Class A common stock, no par value, 3,000,000,000 shares authorized; 275,000,000 shares issued and outstanding, actual; and 555,000,000 shares issued and outstanding, as adjusted		
Class B common stock, no par value, 2,000,000,000 shares authorized; 1,180,000,000 shares issued and outstanding, actual and as adjusted		
Additional paid-in capital	15,230	23,664
Earnings reinvested in the business	1,318	1,318
Accumulated other comprehensive losses (primarily currency translation adjustments)	(2,227)	(2,227)
Total shareholders' equity	14,321	22,755
Total capitalization	$40,541	$40,541

The number of shares of our Class A common stock to be outstanding after this offering excludes:

- 28,000,000 shares issuable upon exercise of the underwriters' over-allotment option;
- 21,322,596 shares issuable upon exercise of employee stock options to be granted by us concurrently with this offering at an option price equal to the initial public offering price on the cover page of this prospectus; and
- 54,612,904 additional shares available for future issuance under our stock option and incentive plans.

See "Option Grants and Sales to Employees."

DILUTION

Our total liabilities exceeded our total tangible assets at March 31, 2001, by approximately $17.1 billion, or $11.75 per share of common stock. Our net tangible book value per share represents:

- our total assets less intangible assets;

- reduced by our total liabilities; and

- divided by the number of shares of our common stock outstanding.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of our Class A common stock in this offering and the net tangible book value per share of our common stock immediately following this offering.

After giving effect to:

- the sale by us of 280,000,000 shares of our Class A common stock in this offering at the initial public offering price of $31.00 per share; and

- the receipt and application of the proceeds after deducting the underwriting discount and estimated offering expenses;

our adjusted net tangible book value as of March 31, 2001, would have been approximately ($8.7) billion, or ($5.00) per share. This represents an immediate increase in net tangible book value of $6.75 per share to Philip Morris, our sole shareholder. This also represents an immediate dilution of $36.00 per share to new investors purchasing shares of our Class A common stock in this offering. The following table illustrates this per share dilution:

Initial public offering price per Class A share		$31.00
Net tangible book value per share before this offering	($11.75)	
Increase per share attributable to investors in this offering	6.75	
Adjusted net tangible book value per share after this offering		(5.00)
Dilution per share to new investors		$36.00

These calculations do not give effect to 28,000,000 shares of Class A common stock that we will issue if the underwriters exercise their over-allotment option in full.

Assuming this offering had occurred on March 31, 2001, the following table summarizes the differences between the total consideration paid, or to be paid, and the average price per share paid, or to be paid, by our current shareholder and the investors in this offering with respect to the number of shares of Class A common stock purchased from us:

	Shares Purchased		Total Consideration		
	(in millions, except per share amounts)				
	Number	Percent	Amount	Percent	Average Price Per Share
Current shareholder	1,455	83.9%	$14,321	62.3%	$ 9.84
Investors in this offering	280	16.1	8,680	37.7	31.00
Total	1,735	100.0%	$23,001	100.0%	

The table above takes into account our outstanding Class B common stock and does not take into account any shares underlying stock options granted to officers or employees.

PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Introduction

On December 11, 2000, we acquired all of the outstanding shares of Nabisco for $55 per share in cash. The purchase of the outstanding shares, retirement of employee stock options and other payments totaled approximately $15.2 billion. In addition, the acquisition included the assumption of approximately $4.0 billion of existing Nabisco debt. We financed the acquisition by issuing two long-term notes payable to Philip Morris totaling $15.0 billion and by using short-term intercompany borrowings of $255 million.

We have accounted for the Nabisco acquisition as a purchase. Nabisco's balance sheet has been consolidated with our balance sheet as of December 31, 2000; however, Nabisco's earnings from December 11, 2000 through December 31, 2000, have not been included in our combined operating results because the amounts were insignificant. Our interest cost of $65 million associated with acquiring Nabisco has been included in interest and other debt expense, net, in our combined statement of earnings for the year ended December 31, 2000.

We have based the allocation of excess purchase price on preliminary estimates and assumptions. This allocation is subject to revision when appraisals and integration plans have been finalized. Accordingly, revisions to the allocation, which may be significant, will be reported in a future period as increases or decreases to amounts reported as goodwill, other intangible assets, amortization of goodwill and income taxes.

We are also evaluating plans to close or sell a number of Nabisco facilities, pending the completion of logistical studies. We estimate that these actions could result in additional severance and other exit liabilities (and a corresponding increase to excess purchase price) of $500 million to $600 million. These amounts will be recorded on Kraft's combined balance sheet as adjustments to excess purchase price when plans have been finalized and announced to employees. The increase to excess purchase price would increase our annual amortization of goodwill by $12 million to $15 million, which has not been reflected in our pro forma condensed combined statement of earnings.

Our pro forma condensed combined statement of earnings presents:

- our pro forma results of operations for the year ended December 31, 2000, as if the Nabisco acquisition had occurred on January 1, 2000; and

- our pro forma as adjusted results of operations for the year ended December 31, 2000, as if this offering had been completed on January 1, 2000, at the initial public offering price of $31.00 per share and assuming the underwriters do not exercise their over-allotment option, with the net proceeds being used to retire a portion of our $11.0 billion long-term note payable to Philip Morris.

The integration of Nabisco into our operations may result in the sale or closure of a number of our existing facilities. We estimate that these actions could result in charges of $200 million to $300 million, which will be recorded as expense in our combined statement of earnings in the period during which our plans are finalized and announced. Our pro forma condensed combined statement of earnings does not give effect to any synergies expected to result from the merger of Nabisco's operations with ours.

Our pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been consummated, and this offering had been completed, on January 1, 2000, nor are they necessarily indicative of our future operating results.

Our pro forma condensed combined statement of earnings should be read in conjunction with the Kraft combined financial statements and the Nabisco consolidated financial statements and their accompanying notes included elsewhere in this prospectus.

PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS

For the Year Ended December 31, 2000

(Unaudited)

	Historical Kraft	Historical Nabisco(a)	Sales of Businesses(b)	Acquisition Adjustments	Pro Forma	Adjustments For This Offering	Pro Forma As Adjusted
	(in millions of dollars, except per share data)						
Operating revenue.......	$26,532	$8,888	$ (741)	$	$34,679	$	$34,679
Cost of sales...........	13,917	4,764	(439)	24 (c)	18,266		18,266
Gross profit..........	12,615	4,124	(302)	(24)	16,413		16,413
Marketing, administration and research costs.........	8,068	3,229	(157)	(250)(d)	10,890		10,890
Amortization of goodwill...............	535	244	(5)	187 (e)	961		961
Operating income......	4,012	651	(140)	39	4,562		4,562
Interest and other debt expense, net...........	597	304	(1)	1,102 (f)	2,002	(654)(h)	1,348
Earnings before income taxes................	3,415	347	(139)	(1,063)	2,560	654	3,214
Provision for income taxes..................	1,414	192	(49)	(401)(g)	1,156	271 (i)	1,427
Net earnings..........	$ 2,001	$ 155	$ (90)	$ (662)	$ 1,404	$ 383	$ 1,787
Per share data:							
Basic earnings per share................	$ 1.38				$ 0.96		$ 1.03
Diluted earnings per share................	$ 1.38				$ 0.96		$ 1.03
Basic weighted average number of shares (millions)...........	1,455				1,455	280 (h)	1,735
Diluted weighted average number of shares (millions)....	1,455				1,455	280 (h)	1,735

See introduction and accompanying notes.

NOTES TO PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS

(Unaudited)

(a) The historical Nabisco column represents:

- the unaudited results of Nabisco on an historical basis for the period from January 1, 2000 through December 11, 2000; and

- Nabisco's results, including the amortization of goodwill and other adjustments resulting from the Nabisco acquisition on December 11, 2000, for the period from December 12, 2000 through December 31, 2000.

The following is a summary of the estimated pro forma adjustments, based upon available information and upon certain assumptions that management believes are reasonable, that are reflected in our pro forma condensed combined statement of earnings:

(b) In order to address concerns raised by United States trade regulation authorities, Nabisco sold its domestic dry packaged desserts and baking powder businesses, as well as its intense mints and gum businesses in December 2000. The businesses sold by Nabisco are not included in our historical combined balance sheet as of December 31, 2000. In addition, we have announced plans to sell Nabisco's Canadian grocery business as well as a number of additional Nabisco businesses that do not fit strategically with our businesses. The businesses that we plan to sell are included in our historical combined balance sheet at December 31, 2000 within the caption "Assets held for sale." Our 2000 pro forma condensed combined statement of earnings has been adjusted to eliminate the operating results of the businesses sold by Nabisco and to be sold by us, as follows:

	(in millions)
Net earnings of businesses sold by Nabisco	$61
Net earnings of businesses to be sold by us	29
Total	$90

(c) Represents the following adjustments:

	(in millions)
Charge to reflect the cost of conforming Nabisco's employee benefit plans	$ 8
Adjustment to record Nabisco's inventory on a last-in, first-out basis	16
Total	$24

(d) Represents the following adjustments:

	(in millions)
Reversal of Nabisco's non-recurring charge for expenses associated with the acquisition of Nabisco (financial, legal and advisor fees and payments to retire employee stock options) included in earnings for the year ended December 31, 2000	$(127)
Elimination of Nabisco's loss on businesses sold in order to address concerns raised by United States trade regulation authorities in connection with the Nabisco acquisition	(139)
Charge to reflect the cost of conforming Nabisco's employee benefit plans	16
Total	$(250)

(e) Represents amortization of acquisition goodwill over 40 years by the straight-line method, net of the reversal of Nabisco's amortization of pre-acquisition goodwill. The allocation of excess purchase price is based upon preliminary estimates and assumptions and is subject to revision when appraisals and integration plans have been finalized. Accordingly, revisions to the allocation, which may be significant, will be reported in a future period as increases or decreases to amounts reported as goodwill, other intangible assets, amortization of goodwill and income taxes.

We are also evaluating plans to close or sell a number of Nabisco facilities, pending the completion of logistical studies. We estimate that these actions could result in additional severance and other exit liabilities (and a corresponding increase to excess purchase price) of $500 million to $600 million. These amounts will be recorded on our combined balance sheet as adjustments to excess purchase price when plans have been finalized and announced to employees. The increase to excess purchase price would increase our annual amortization of goodwill by $12 million to $15 million which has not been reflected in our pro forma condensed combined statement of earnings.

(f) Represents interest expense to finance the Nabisco acquisition. Interest expense has been computed as follows:

	(in millions)
Fixed rate note payable to Philip Morris--$11.0 billion at 7.75%, due December 2002	$ 853
Fixed rate note payable to Philip Morris--$4.0 billion at 7.40%, due December 2002	296
Short-term intercompany borrowings from Philip Morris--$255 million at 7.14%	18
Adjustment for interest expense relating to debt incurred to finance the acquisition recorded in our combined statement of earnings for the year ended December 31, 2000	(65)
Total	$1,102

(g) Recognition of income tax effects at a rate of 41.4%, excluding the impact of the amortization of goodwill, which is not deductible for income tax purposes, net of income taxes of approximately $75 million previously recorded by Nabisco on the non-recurring adjustments included in item (d) above.

(h) Adjustments to give effect to:

- the receipt as of January 1, 2000, of the net proceeds of this offering of approximately $8.4 billion, after deduction of the underwriting discount and estimated offering expenses aggregating to $246 million; and

- the reduction of interest expense for the year ended December 31, 2000, to reflect the retirement of a portion of our $11.0 billion long-term note payable to Philip Morris with the net proceeds of this offering.

The adjustments assume the underwriters do not exercise their over-allotment option. See "Use of Proceeds" and "Capitalization."

(i) Recognition of income tax effects at a rate of 41.4%.

SELECTED HISTORICAL COMBINED FINANCIAL AND OTHER DATA

Introduction

The following table presents our selected historical combined financial and other data and should be read along with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Kraft combined financial statements, and the accompanying notes to those statements included in this prospectus. The financial information as of December 31, 1999 and 2000, and for each of the three years in the period ended December 31, 2000, has been derived from the audited Kraft combined financial statements included in this prospectus. The financial information as of December 31, 1996, 1997 and 1998, and for each of the two years in the period ended December 31, 1997, has been derived from Kraft's unaudited financial information. The financial information as of and for the quarters ended March 31, 2000 and 2001, has been derived from the unaudited Kraft condensed combined financial statements. The unaudited financial information includes all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of our results of operations for these periods.

We are currently a wholly-owned subsidiary of Philip Morris. In contemplation of this offering, Philip Morris transferred its indirectly owned Latin American food subsidiaries to us. The combined financial data in this prospectus give retroactive effect to the contribution of these Latin American businesses as if the transfer had occurred on January 1, 1996.

On December 11, 2000, we acquired Nabisco. We have accounted for the Nabisco acquisition as a purchase. Nabisco's balance sheet has been consolidated with our balance sheet as of December 31, 2000; however, Nabisco's earnings from December 11, 2000, through December 31, 2000, have not been included in our combined operating results because the amounts were insignificant. Our interest cost of $65 million associated with acquiring Nabisco has been included in interest and other debt expense, net, in our combined statement of earnings for the year ended December 31, 2000. Nabisco's earnings have been included in our combined operating results for the first quarter of 2001.

We define EBITDA as earnings before interest and other debt expense, net; provision for income taxes; depreciation; and amortization. We believe that EBITDA is a measure commonly used by analysts and investors. Accordingly, we have disclosed this information to permit a more complete analysis of our operating performance. EBITDA should not be considered in isolation or as a substitute for net earnings or other results of operations data or cash flow data prepared in accordance with accounting principles generally accepted in the United States as a measure of our profitability or liquidity. EBITDA, as we calculate it, may not be comparable to similarly titled measures reported by other companies.

We define operating companies income as operating income before amortization of goodwill and corporate expenses. We use this measure to report our segment profitability under accounting principles generally accepted in the United States.

We also evaluate our operating results and the performance of our businesses by reviewing underlying results, including underlying operating revenue, underlying operating companies income and underlying operating companies income margin. Underlying results reflect the results of our business operations, excluding significant one-time items for employee separation programs, write-downs of property, plant and equipment, estimated sales made in advance of the century date change and gains (losses) on sales of businesses. Underlying results also exclude the operating results of businesses that have been sold. Accordingly, we have disclosed underlying results to permit a more complete analysis of our operating performance. Underlying operating companies income should not be considered in isolation or as a substitute for net earnings or other results of operations data prepared in accordance with accounting principles generally accepted in the United States.

We calculate operating companies income margin by dividing operating companies income by operating revenue. We calculate underlying operating companies income margin by dividing underlying operating companies income by underlying operating revenue.

SELECTED HISTORICAL COMBINED FINANCIAL AND OTHER DATA

	Year Ended December 31,					First Quarter Ended March 31,	
	1996	1997	1998	1999	2000	2000	2001
	(in millions, except per share data)						
Statement of Earnings Data:							
Operating revenue	$27,950	$27,690	$27,311	$26,797	$ 26,532	$ 6,460	$ 8,367
Cost of sales	16,387	15,978	15,544	14,573	13,917	3,381	4,267
Gross profit	11,563	11,712	11,767	12,224	12,615	3,079	4,100
Marketing, administration and research costs	7,729	7,601	7,688	8,106	8,068	2,017	2,768
Amortization of goodwill	569	552	544	539	535	133	240
Operating income	3,265	3,559	3,535	3,579	4,012	929	1,092
Interest and other debt expense, net	509	476	536	539	597	127	482
Earnings before income taxes	2,756	3,083	2,999	3,040	3,415	802	610
Provision for income taxes	1,289	1,291	1,367	1,287	1,414	332	284
Net earnings	$ 1,467	$ 1,792	$ 1,632	$ 1,753	$ 2,001	$ 470	$ 326
Basic and diluted earnings per share	$ 1.01	$ 1.23	$ 1.12	$ 1.20	$ 1.38	$ 0.32	$ 0.22
Weighted average number of shares	1,455	1,455	1,455	1,455	1,455	1,455	1,455
Balance Sheet Data:							
Goodwill, net of accumulated amortization	$18,114	$16,843	$16,408	$15,296	$ 31,584	$ 15,337	$ 31,423
Total assets	33,366	31,257	31,391	30,336	52,071	30,456	52,053
Short-term borrowings, including current maturities	152	168	109	105	859	121	493
Long-term notes payable to Philip Morris	5,000	5,000	6,234	6,602	21,407	6,488	21,390
Other long-term debt	634	531	483	433	2,695	425	2,721
Shareholders' equity	17,530	15,761	15,134	13,461	14,048	13,847	14,321
Cash Flow Data:							
Cash provided by (used in):							
Operating activities	$ 2,341	$ 1,940	$ 2,324	$ 2,693	$ 3,254	$ 548	$ 2
Investing activities	(485)	781	(763)	(669)	(16,138)	(440)	(194)
Financing activities	(1,924)	(2,699)	(1,565)	(2,031)	12,982	(72)	164
Depreciation and amortization	1,115	1,064	1,038	1,030	1,034	260	425
Capital expenditures	(812)	(737)	(841)	(860)	(906)	(120)	(174)
Other Data:							
Volume (in pounds)	12,913	12,767	12,694	12,817	13,130	3,113	4,280
EBITDA	$ 4,380	$ 4,623	$ 4,573	$ 4,609	$ 5,046	$ 1,189	$ 1,517
Corporate expenses	97	88	103	135	208	51	50
Operating companies income:							
Reported	3,931	4,199	4,182	4,253	4,755	1,113	1,382
Underlying	3,596	3,911	4,108	4,308	4,620	1,142	1,411
Operating companies income margin:							
Reported	14.1%	15.2%	15.3%	15.9%	17.9%	17.2%	16.5%
Underlying	13.8	14.7	15.3	16.4	17.4	17.6	16.9

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with the "Pro Forma Condensed Combined Financial Information" and the accompanying introduction and notes, as well as the Kraft combined financial statements, the Nabisco consolidated financial statements and their accompanying notes, included elsewhere in this prospectus.

Overview of Our Business

General

We conduct our global business through two units: Kraft Foods North America and Kraft Foods International. Kraft Foods North America manages its operations by product category, while Kraft Foods International manages its operations by geographic region. Kraft Foods North America's segments are Cheese, Meals and Enhancers; Biscuits, Snacks and Confectionery; Beverages, Desserts and Cereals; and Oscar Mayer and Pizza. Kraft Foods North America's food service business within the United States and its businesses in Canada and Mexico are managed under the Cheese, Meals and Enhancers segment. Kraft Foods International's segments are Europe, Middle East and Africa; and Latin America and Asia Pacific.

We manufacture and distribute a diverse and extensive range of products globally. Our products are sold in over 140 countries. Within many of our product lines, we hold the number one category share in a substantial number of our markets. As of March 15, 2001, we had 228 plants, of which 106 were located in North America.

Our operating revenue and operating companies income are affected by various factors including volume, price, currency, acquisitions, divestitures and product mix. Product mix refers to the change in relative percentage of our volume comprising products with higher margins per pound versus lower margins per pound. Favorable product mix occurs when our volume includes more products that generate higher margins and unfavorable product mix occurs when our volume includes more products that generate lower margins. Our cost of sales consists of commodity and other materials costs, labor costs and manufacturing costs. We use a number of commodities in producing our products, principally coffee and cocoa beans and dairy products. We also use paper and other materials to package our products. Fluctuation in commodity costs can cause retail price volatility, intensify price competition and influence consumer and trade buying patterns.

Our marketing, administration and research costs include the costs of marketing our products, other general costs not directly related to manufacturing our products and costs incurred to develop new and innovative products. The most significant component of our marketing, administration and research costs is marketing expense, which relates to the advertising and promotion of our products.

Our businesses are subject to competitive challenges in various product categories and markets, including trends toward increasing consolidation in the retail trade and changing consumer preferences. To confront these challenges, we continue to take steps to build the value of our brands with new products and marketing initiatives, to enhance our portfolio of food and beverage businesses and to reduce costs.

Factors Affecting Comparability

Acquisitions, Divestitures and License Agreements. On December 11, 2000, we acquired all of the outstanding shares of Nabisco for an aggregate cost of approximately $19.2 billion, including the assumption of approximately $4.0 billion of Nabisco's existing debt. In connection with the acquisition, we issued long-term notes payable to Philip Morris in an aggregate principal amount of $15.0 billion and financed the balance of the acquisition through short-term intercompany borrowings of $255 million. We will use the net proceeds from this offering to retire a portion of our $11.0 billion long-term note payable to Philip Morris. We plan to repay the remainder of these notes from the proceeds of future issuances of debt and internally generated cash flow.

We accounted for the Nabisco acquisition as a purchase in our combined financial statements as of December 31, 2000. Nabisco's balance sheet has been consolidated with our balance sheet as of December 31, 2000. However, Nabisco's earnings from December 11, 2000 through December 31, 2000, have not been included in our combined operating results because the amounts were insignificant. Our interest cost of $65 million associated with acquiring Nabisco has been included in interest and other debt expense, net, in our combined statement of earnings for the year ended December 31, 2000. Nabisco's earnings have been included in our combined operating results for the first quarter of 2001.

Had the Nabisco acquisition occurred at the beginning of 2000, our 2000 pro forma combined operating revenue would have been $34.7 billion and our 2000 pro forma combined operating companies income would have been $5.7 billion. Our pro forma amounts are not necessarily indicative of what actually would have occurred if the acquisition had been consummated at the beginning of 2000, nor are they necessarily indicative of our future operating results.

During 2001, we will finalize the Nabisco acquisition balance sheet, including the completion of fair value appraisals of Nabisco's assets. During this process, we will also finalize our plans to integrate the operations of Nabisco. We anticipate closing or selling a number of Nabisco facilities. We estimate that costs for these actions will range from $500 million to $600 million. These costs will increase goodwill on our combined balance sheet and will be recorded as our plans to close facilities are finalized and announced.

The integration of Nabisco's operations may also result in closing or selling a number of Kraft facilities. We estimate that these actions could result in charges, which will be reflected in our combined statement of earnings, in the range of $200 million to $300 million. These charges will be recorded during the period in which the integration plans have been finalized and announced. During the first quarter of 2001, we sold a Kraft facility in North America and recorded a pre-tax loss of $29 million.

We have also purchased and sold smaller businesses and entered into licensing agreements, including the following:

- During the first quarter of 2001, we purchased coffee businesses in Romania and Morocco. The aggregate purchase price of these businesses was $33 million. We also announced the purchase of a coffee company in Bulgaria, pending government approval, for a price of approximately $45 million.

- During 2000, we purchased Balance Bar Co., a maker of energy and nutrition snack products, as well as Boca Burger, Inc., a manufacturer and marketer of soy-based meat alternatives. The aggregate purchase price of these businesses was $358 million.

- During 2000, we sold a French confectionery business for $251 million, resulting in a pre-tax gain of $139 million.

- In 1998, we entered into a licensing agreement to market, sell and distribute Starbucks bagged coffee to grocery customers across the United States.

While these actions are important to the success of our business strategy, the operating results of these and other smaller acquisitions, licensing agreements and divestitures have not had a material impact on our combined results of operations.

Benefit Plans. Our domestic pension plans are currently overfunded, which means that pension funds exceed our plans' liabilities to their participants. To the extent that pension fund investments earn more than the cost of providing benefits to our employees each year, we record income in our combined statements of earnings in accordance with accounting principles generally accepted in the United States. However, our health care plans, postemployment plans and some of our international pension plans are either unfunded or underfunded and, therefore, generate benefit plan expense in our combined statements of earnings. The net amount of our benefit plan income and expense resulted in pre-tax expense of $52 million in 1998 and pre-tax income of $27 million in 1999 and $103 million in 2000. The increases in the net benefit income in 1999 and 2000 are primarily attributable to our pension fund's investment performance. However, given recent performance of these investments and additional benefit expense for Nabisco, we expect the level of net benefit income to decrease in 2001 by an amount which is not currently determinable.

Foreign Currency. During the first quarter of 2001, changes in currency exchange rates decreased our operating revenue by $173 million and operating companies income by $20 million. Changes in currency exchange rates decreased our operating revenue by $857 million and operating companies income by $91 million during 2000. During 1999, changes in currency exchange rates decreased our operating revenue by $335 million and our operating companies income by $36 million. In the first quarter of 2001 and for the full-year 2000, these decreases were primarily due to the strength of the United States dollar against Western European currencies, primarily the Euro. In 1999, these decreases were due to the strength of the United States dollar against Western European and Latin American currencies. Although we cannot predict future changes in currency exchange rates, the continued strength of the United States dollar against Western European currencies, particularly the Euro, if sustained during the remainder of 2001, would continue to have an adverse effect on our operating revenue and operating companies income.

Most Western European countries use the Euro as their single currency, while still continuing to use their own notes and coins for cash transactions. Beginning in January 2002, new Euro-denominated notes and coins will be issued and local currencies will be withdrawn from circulation. The Euro conversion has not had, and we currently anticipate that it will not have, a material adverse effect on our combined financial condition, operating companies income or cash flows.

Century Date Change. Our year-end 1999 inventories and trade receivables increased due to preemptive contingency plans in the event of a century date change disruption. These increases resulted in a shift of cash outflows to the fourth quarter of 1999 from the first quarter of 2000, in an amount we have estimated to be approximately $155 million. In addition, some of our customers purchased additional products in 1999 in anticipation of potential disruptions related to the century date change. We estimate that the increased shipments in the fourth quarter of 1999 resulted in incremental operating revenue of approximately $97 million and operating companies income of approximately $40 million, and corresponding decreases in operating revenue and operating companies income in the first quarter of 2000.

53rd Week. Our subsidiaries end their fiscal years on the Saturday closest to December 31. Accordingly, most years contain 52 weeks of operating results while every sixth year includes 53 weeks. In 2000, our results include a 53rd week, which resulted in incremental operating companies income of approximately $96 million and increased operating cash flows by approximately $80 million.

Trade Inventory Reductions. During 2000, our United States customers reduced their inventories of our products, primarily powdered soft drinks, cheese, coffee, cereals and dry packaged desserts. We estimate that these actions decreased our operating companies income by approximately $117 million in 2000.

Separation Programs. During 1999, we offered voluntary retirement incentive or separation programs to certain eligible hourly and salaried employees in the United States. Employees electing to terminate employment under the terms of these programs were entitled to enhanced retirement or severance benefits. Approximately 1,100 hourly and salaried employees accepted the benefits offered by these programs, and as a result we recorded a pre-tax charge of $157 million during 1999. This charge was included in marketing, administration and research costs in our combined statement of earnings for 1999. Payments of pension and postretirement benefits were made in accordance with the terms of the applicable benefit plans. Severance benefits, which are paid over a period of time, commenced upon dates of termination, which ranged from April 1999 to March 2000. The program and related payments were completed during 2000. Salary and related benefit costs of employees prior to their retirement or termination date were expensed as incurred.

Energy Costs. During the latter part of 2000 and the first quarter of 2001, our energy costs increased as a result of higher prices charged for oil and natural gas. However, this increase in energy costs did not have a material adverse effect on our operating companies income.

Environmental Matters. We are subject to laws and regulations relating to the protection of the environment. On an annual basis, our recurring costs of ensuring that we comply with environmental laws and regulations for ongoing operations have not been material to our combined results of operations or cash flows, and we do not currently expect any material change in the level of our expenditures during 2001. We are party to a number of proceedings relating to various environmental matters. We are not currently subject to any mandate or order, the resolution of which, either individually or in the aggregate, is reasonably likely to have a material effect on our combined financial position, results of operations or cash flows.

Combined Operating Results by Segment

	Year Ended December 31,				First Quarter Ended March 31,	
	1998	1999	2000	Pro Forma 2000	2000	2001
	(dollars and pounds in millions)					
Volume (in pounds):						
Kraft Foods North America						
Cheese, Meals and Enhancers..............	4,913	4,874	4,820	5,365	1,158	1,308
Biscuits, Snacks and Confectionery..........	43	47	54	2,549	12	609
Beverages, Desserts and Cereals................	2,705	2,883	3,117	3,197	765	861
Oscar Mayer and Pizza...	1,388	1,433	1,507	1,507	367	383
Total Kraft Foods North America................	9,049	9,237	9,498	12,618	2,302	3,161
Kraft Foods International						
Europe, Middle East and Africa.................	2,887	2,816	2,829	3,012	634	640
Latin America and Asia Pacific................	758	764	803	1,983	177	479
Total Kraft Foods International..........	3,645	3,580	3,632	4,995	811	1,119
Total volume..........	12,694	12,817	13,130	17,613	3,113	4,280
Operating revenue:						
Kraft Foods North America						
Cheese, Meals and Enhancers..............	$ 9,322	$ 9,360	$ 9,405	$10,328	$2,234	$2,494
Biscuits, Snacks and Confectionery..........	220	265	329	6,037	74	1,440
Beverages, Desserts and Cereals................	5,039	5,074	5,266	5,459	1,395	1,464
Oscar Mayer and Pizza...	3,059	3,198	3,461	3,461	831	884
Total Kraft Foods North America................	17,640	17,897	18,461	25,285	4,534	6,282
Kraft Foods International						
Europe, Middle East and Africa.................	8,307	7,676	6,824	6,995	1,639	1,503
Latin America and Asia Pacific................	1,364	1,224	1,247	2,399	287	582
Total Kraft Foods International..........	9,671	8,900	8,071	9,394	1,926	2,085
Total operating revenue...............	$27,311	$26,797	$26,532	$34,679	$6,460	$8,367
Operating companies income:						
Kraft Foods North America						
Cheese, Meals and Enhancers..............	$ 1,599	$ 1,658	$ 1,845	$ 2,052	$ 449	$ 491
Biscuits, Snacks and Confectionery..........	54	73	100	802	21	165
Beverages, Desserts and Cereals................	1,005	1,009	1,090	1,112	311	339
Oscar Mayer and Pizza...	470	450	512	512	132	148
Total Kraft Foods North America................	3,128	3,190	3,547	4,478	913	1,143
Kraft Foods International						
Europe, Middle East and Africa.................	884	895	1,019	985	170	172
Latin America and Asia Pacific................	170	168	189	268	30	67
Total Kraft Foods International..........	1,054	1,063	1,208	1,253	200	239
Total operating						

companies income......	$ 4,182	$ 4,253	$ 4,755	$ 5,731	$1,113	$1,382
	=======	=======	=======	=======	======	======
Operating companies income margin:						
Kraft Foods North America						
Cheese, Meals and Enhancers..............	17.2%	17.7%	19.6%	19.9%	20.1%	19.7%
Biscuits, Snacks and Confectionery..........	24.5	27.5	30.4	13.3	28.4	11.5
Beverages, Desserts and Cereals................	19.9	19.9	20.7	20.4	22.3	23.2
Oscar Mayer and Pizza...	15.4	14.1	14.8	14.8	15.9	16.7
Total Kraft Foods North America................	17.7	17.8	19.2	17.7	20.1	18.2
Kraft Foods International						
Europe, Middle East and Africa.................	10.6	11.7	14.9	14.1	10.4	11.4
Latin America and Asia Pacific................	12.5	13.7	15.2	11.2	10.5	11.5
Total Kraft Foods International..........	10.9	11.9	15.0	13.3	10.4	11.5
Total operating companies income margin................	15.3%	15.9%	17.9%	16.5%	17.2%	16.5%

We define operating companies income as operating income before amortization of goodwill and corporate expenses. We use this measure to review and report our segment profitability, as presented in the preceding table. We also review, among other measures, underlying operating results to evaluate the performance of our business on a comparable basis. Underlying operating results reflect the results of our business operations, excluding significant one-time items for employee separation programs, estimated sales made in advance of the century date change and gains (losses) on sales of businesses. Underlying operating results also exclude the operating results of businesses that have been sold. Accordingly, we have disclosed underlying results to permit a more complete analysis of our operating performance. The following is a reconciliation of reported operating results to underlying operating results for each of the three years in the period ended December 31, 2000, and for the first quarter of 2000 and 2001:

	Year Ended December 31,			First Quarter Ended March 31,	
	1998	1999	2000	2000	2001
	(dollars and pounds in millions)				
Reported volume (in pounds)	12,694	12,817	13,130	3,113	4,280
Volume of businesses sold	(215)	(137)	(43)	(17)	
Estimated impact of century date change		(55)	55	55	
Underlying volume (in pounds)	12,479	12,625	13,142	3,151	4,280
Reported operating revenue	$27,311	$26,797	$26,532	$6,460	$8,367
Operating revenue of businesses sold	(547)	(352)	(141)	(53)	
Estimated impact of century date change		(97)	97	97	
Underlying operating revenue	$26,764	$26,348	$26,488	$6,504	$8,367
Reported operating companies income	$ 4,182	$ 4,253	$ 4,755	$1,113	$1,382
Gain on sale of a French confectionery business			(139)		
Loss on sale of a food factory					29
Operating companies income of businesses sold	(74)	(62)	(36)	(11)	
Estimated impact of century date change		(40)	40	40	
Separation programs		157			
Underlying operating companies income	$ 4,108	$ 4,308	$ 4,620	$1,142	$1,411

First Quarter 2001 Compared with First Quarter 2000

Our volume for the first quarter of 2001 increased by 1,167 million pounds, or 37.5%, over the first quarter of 2000. Excluding the impact of divested businesses and the estimated shift in volume due to the century date change, our underlying volume grew 35.8%. The majority of this increase related to the Nabisco acquisition. If we had owned Nabisco during the first quarter of 2000, our underlying volume would have increased by 3.3% with increases in all segments.

Our operating revenue for the first quarter of 2001 increased $1.9 billion, or 29.5%, from the first quarter of 2000. This increase was due primarily to the acquisition of Nabisco and the impact of higher volume of $162 million. This increase was partially offset by unfavorable currency exchange rates of $173 million. Excluding the effects of divested businesses and the estimated shift in revenue due to the century date change, our underlying operating revenue for the first quarter of 2001 increased $1.9 billion, or 28.6%, from the first quarter of 2000. If we had owned Nabisco during the first quarter of 2000, our underlying operating revenue would have increased 0.4%.

Our operating companies income increased $269 million, or 24.2%, from the first quarter of 2000. This increase was due primarily to a $229 million increase attributable to the Nabisco acquisition, a $98 million impact of volume increases and higher margins of $54 million. This increase was partially offset by higher marketing, administration and research costs of $63 million, unfavorable product mix of $24 million and unfavorable currency exchange rates of $20 million. Higher margins on our products were primarily the result of lower commodity-related costs and lower manufacturing costs. Excluding the loss on the sale of a North American food factory in 2001, the earnings of divested businesses and the estimated shift in income due to the century date change, our underlying operating companies income increased $269 million, or 23.6%. If we had owned Nabisco during the first quarter of 2000, our underlying operating companies income would have increased 6.9%.

Interest and other debt expense, net, increased $355 million in the first quarter of 2001 from $127 million in the first quarter of 2000. Amortization of goodwill increased $107 million in the first quarter of 2001 from $133 million in the first quarter of 2000. These increases were due to our acquisition of Nabisco.

Our first quarter 2001 net earnings decreased $144 million and our first quarter 2001 basic and diluted earnings per share each decreased by 31.3%. These decreases were due primarily to higher levels of goodwill amortization and interest expense in connection with our acquisition of Nabisco. Excluding the loss on the sale of a North American food factory in 2001 and the impact of the estimated shift in income due to the century date change, our first quarter 2001 underlying net earnings of $344 million decreased 30.4% from $494 million in the first quarter of 2000, and our underlying basic and diluted earnings per share each decreased 29.4% from $0.34 in the first quarter of 2000 to $0.24 in the first quarter of 2001. If we had owned Nabisco during the first quarter of 2000, our net earnings would have increased 12.4% and our basic and diluted earnings per share would have increased 14.3%.

2000 Compared with 1999

Our volume increased by 313 million pounds, or 2.4%, during 2000. Of this increase, 1.6 percentage points related to the inclusion of 53 weeks in 2000 operating results, partially offset by a 0.9 percentage point decrease related to trade inventory reductions in the United States. Volume grew in every segment but Cheese, Meals and Enhancers, in which a decrease in lower-margin food service products more than offset volume increases in higher margin products. Excluding the impact of divested businesses and the estimated shift in volume due to the century date change, our underlying volume grew 4.1%, of which 1.6 percentage points related to the inclusion of 53 weeks in 2000 operating results, partially offset by a 0.9 percentage point decrease related to trade inventory reductions in the United States.

Our operating revenue for 2000 decreased $265 million, or 1.0%, from 1999. This decrease was due primarily to unfavorable currency exchange rates of $857 million, the estimated shift in revenue attributable to the century date change of $194 million and the impact of divested businesses of $211 million. These decreases were partially offset by an increase of $774 million attributable to higher volume, the impact of acquisitions of $148 million and price increases of $49 million. Excluding the effects of divested businesses and the estimated shift in revenue due to the century date change, our underlying operating revenue for 2000 increased $140 million, or 0.5%, from 1999.

Our operating companies income increased $502 million, or 11.8%, from 1999. This increase was due primarily to a $430 million impact of volume increases, higher margins of $402 million, the absence of 1999 separation charges of $157 million and the $139 million gain on the sale of the French confectionery business in 2000. These increases were partially offset by higher marketing expenses of $366 million, unfavorable currency exchange rates of $91 million, the shift in income due to the century date change estimated to be $80 million, unfavorable product mix of $43 million and the impact of divested businesses. Higher margins on our products were primarily the result of price increases, coupled with lower cost of sales due to lower commodity-related costs and lower manufacturing costs. Marketing expense increased in every segment, with the largest increase in Cheese, Meals and Enhancers. We increased price promotions on cheese products in 2000 in the United States during a period of intense competition that resulted from declining cheese commodity costs. Excluding the gain on sale of the French confectionery business in 2000, the impact of the 1999 separation charges, the estimated shift in income due to the century date change and the earnings of divested businesses, our underlying operating companies income increased 7.2% over 1999.

Interest and other debt expense, net, increased $58 million, or 10.8%, due primarily to notes issued to Philip Morris in connection with our purchase of Nabisco.

Our provision for income taxes for the years ended December 31, 1999 and 2000, reflected effective income tax rates of 42.3% and 41.4%, respectively. The lower 2000 effective rate resulted primarily from a reduction in state and local income taxes due to the mix of pre-tax earnings in various states.

Our 2000 net earnings increased by $248 million and our 2000 basic and diluted earnings per share each increased by 15.0%. Excluding the impact of the gain on sale of the French confectionery business, separation charges in 1999 and the impact of the estimated shift in income due to the century date change, our 2000 underlying net earnings of $1.9 billion grew 6.6% over $1.8 billion in 1999, and our underlying basic and diluted earnings per share each grew 7.2% from $1.25 in 1999 to $1.34 in 2000.

1999 Compared with 1998

Our volume increased 123 million pounds, or 1.0%, over 1998. Increases in most segments were partially offset by lower shipments in the Cheese, Meals and Enhancers segment and lower volume in Europe. Excluding divested businesses and the estimated shift in shipments due to the century date change, our underlying volume increased 1.2% over 1998.

Our operating revenue for 1999 decreased $514 million, or 1.9%, from 1998. This decrease was due primarily to unfavorable currency exchange rates of $335 million and lower pricing of $301 million resulting from lower commodity costs. Partially offsetting these decreases was an estimated shift in revenue of $97 million attributable to the century date change. Excluding the impact of divested businesses and the estimated shift in revenue due to the century date change, our underlying operating revenue for 1999 decreased $416 million, or 1.6%, from 1998.

Our operating companies income increased $71 million, or 1.7%, over 1998. This increase was due primarily to higher margins of $507 million, the impact of higher volume of $70 million and the estimated shift in income due to the century date change of $40 million. These increases were partially offset by $157 million of separation charges in 1999, higher marketing, administration and research costs of $294 million, unfavorable currency exchange rates of $36 million, unfavorable product mix of $20 million and the impact of divested businesses of $12 million. Higher margins on our products were the result of lower cost of sales due to lower commodity-related costs and lower manufacturing costs, partially offset by lower pricing. Marketing expense increased in every segment except Latin America and Asia Pacific. Excluding the impact of the 1999 separation charges, the estimated shift in income due to the century date change and the earnings of divested businesses, our underlying operating companies income increased 4.9% over 1998.

Our provision for income taxes for the years ended December 31, 1998 and 1999, reflected effective income tax rates of 45.6% and 42.3%, respectively. The lower effective rate for 1999 resulted primarily from a reduction in foreign income taxes.

Our 1999 net earnings increased by $121 million and our 1999 basic and diluted earnings per share each increased 7.1%, due primarily to higher operating companies income. Excluding the impact of the 1999 separation charges and the estimated shift in income due to the century date change, our 1999 underlying net earnings of $1.8 billion grew 11.7% over $1.6 billion in 1998, and our underlying basic and diluted earnings per share each increased 11.6% from $1.12 in 1998 to $1.25 in 1999.

Operating Results by Business Segment

Kraft Foods North America

The following table is a reconciliation of Kraft Foods North America's reported operating results to underlying operating results for each of the three years in the period ended December 31, 2000, and for the first quarter of 2000 and 2001:

	Year Ended December 31,			First Quarter Ended March 31,	
	1998	1999	2000	2000	2001
	(dollars and pounds in millions)				
Reported volume (in pounds)....	9,049	9,237	9,498	2,302	3,161
Volume of businesses sold:					
Cheese, Meals and Enhancers.................	(14)	(13)	(5)	(4)	
Estimated impact of century date change:					
Cheese, Meals and Enhancers.................		(16)	16	16	
Biscuits, Snacks and Confectionery.............		(1)	1	1	
Beverages, Desserts and Cereals...................		(19)	19	19	
Oscar Mayer and Pizza......		(5)	5	5	
Underlying volume (in pounds)..	9,035	9,183	9,534	2,339	3,161
Reported operating revenue.....	$17,640	$17,897	$18,461	$ 4,534	$ 6,282
Operating revenue of businesses sold:					
Cheese, Meals and Enhancers.................	(29)	(25)	(10)	(7)	
Estimated impact of century date change:					
Cheese, Meals and Enhancers.................		(34)	34	34	
Biscuits, Snacks and Confectionery.............		(3)	3	3	
Beverages, Desserts and Cereals...................		(22)	22	22	
Oscar Mayer and Pizza......		(12)	12	12	
Underlying operating revenue...	$17,611	$17,801	$18,522	$ 4,598	$ 6,282
Reported operating companies income........................	$ 3,128	$ 3,190	$ 3,547	$ 913	$ 1,143
Operating companies income of businesses sold:					
Cheese, Meals and Enhancers.................	(7)	(8)	(4)	(3)	
Estimated impact of century date change:					
Cheese, Meals and Enhancers.................		(15)	15	15	
Biscuits, Snacks and Confectionery.............		(1)	1	1	
Beverages, Desserts and Cereals...................		(7)	7	7	
Oscar Mayer and Pizza......		(4)	4	4	
Loss on sale of a food factory:					
Cheese, Meals and Enhancers.................					29
Separation programs:					
Cheese, Meals and Enhancers.................		71			
Biscuits, Snacks and Confectionery.............		2			
Beverages, Desserts and Cereals...................		46			
Oscar Mayer and Pizza......		38			
Underlying operating companies income........................	$ 3,121	$ 3,312	$ 3,570	$ 937	$ 1,172

First Quarter 2001 Compared with First Quarter 2000

Kraft Foods North America's volume for the first quarter of 2001 increased 37.3% over the first quarter of 2000. Excluding the impact of divested businesses and the estimated shift in volume attributable to the century date change, our underlying volume increased 35.1%, due primarily to the acquisition of Nabisco. If we had owned Nabisco during the first quarter of 2000, our underlying volume would have increased 3.3%.

Operating revenue increased $1.7 billion, or 38.6%, over the first quarter of 2000, due primarily to a $1.6 billion increase attributable to the Nabisco acquisition, the impact of higher volume of $131 million and the estimated shift in revenue attributable to the century date change of $71 million. Partially offsetting this increase were unfavorable product mix of $68 million and unfavorable currency exchange rates of $16 million. Excluding the estimated shift in revenue attributable to the century date change and the revenue of divested businesses, our underlying operating revenue increased 36.6%. If we had owned Nabisco during the first quarter of 2000, our underlying operating revenue would have increased 2.1%.

Operating companies income increased $230 million, or 25.2%, due primarily to a $211 million increase attributable to the Nabisco acquisition, the impact of higher volume of $76 million, higher margins of $58 million and the estimated shift in income attributable to the century date change of $27 million. This increase was partially offset by higher marketing, administration and research costs of $78 million, the majority of which related to higher marketing expenses, the loss on the sale of a North American food factory of $29 million and unfavorable product mix of $24 million. Higher margins were the result of lower commodity-related and manufacturing costs. Excluding the estimated shift in income attributable to the century date change, the loss on the sale of a North American food factory and the income of divested businesses, our underlying operating companies income increased 25.1% over the first quarter of 2000. If we had owned Nabisco during the first quarter of 2000, our underlying operating companies income would have increased 6.5%.

The following discusses operating results within each of Kraft Foods North America's business segments.

Cheese, Meals and Enhancers. Total Cheese, Meals and Enhancers volume increased 13.0% over the first quarter of 2000. Excluding the volume of divested businesses and the estimated shift in volume attributable to the century date change, our underlying volume increased 11.8%, due primarily to the acquisition of Nabisco. If we had owned Nabisco during the first quarter of 2000, our volume would have increased 1.0%, as higher volume in meals and enhancers was partially offset by lower cheese and food service volume. In cheese, volume declined due to lower process cheese shipments and the discontinuance of some of our lower-margin, non-branded products, partially offset by higher volume in natural cheese, cream cheese, cottage cheese and sour cream. Meals volume increased, reflecting higher shipments of dinners and rice. Enhancers volume increased due to gains in spoonable and pourable salad dressings and steak sauce.

Operating revenue increased $260 million, or 11.6%, over the first quarter of 2000. This increase was due primarily to a $221 million increase attributable to the Nabisco acquisition, the impact of higher volume of $24 million and the estimated shift in revenue attributable to the century date change of $34 million. This increase was partially offset by unfavorable currency exchange rates of $16 million. Excluding the estimated shift in revenue attributable to the century date change and revenue of divested businesses, our underlying first quarter 2001 operating revenue increased 10.3%. If we had owned Nabisco during the first quarter of 2000, our underlying operating revenue would have increased 0.8%.

Operating companies income increased $42 million, or 9.4%, over the first quarter of 2000. This increase was due primarily to a $51 million increase attributable to the Nabisco acquisition, higher margins of $29 million, favorable product mix of $20 million, the estimated shift in income attributable to the century date change of $15 million and the impact of higher volume. Partially offsetting this increase were higher marketing, administration and research costs of $49 million and the loss on the sale of a food factory of $29 million. Higher margins were due to lower commodity-related and manufacturing costs. Favorable product mix was the result of lower volume in low-margin food service products and the discontinuance of some of our lower margin, non-branded cheese products. Excluding the estimated shift in income attributable to the century date change, the loss on the sale of a food factory and the income of divested businesses, our underlying first quarter 2001 operating companies income of $520 million increased 12.8% over $461 million in the first quarter of 2000. If we had owned Nabisco during the first quarter of 2000, our underlying operating companies income would have increased 3.5%.

Biscuits, Snacks and Confectionery. Reported and underlying volume of Biscuits, Snacks and Confectionery both grew more than 100% over the first quarter of 2000, due primarily to the acquisition of Nabisco. If we had owned Nabisco during the first quarter of 2000, our underlying volume would have increased 3.3%, due primarily to new product introductions in biscuits and confectionery. In salty snacks, volume declined due primarily to lower shipments of nuts to non-grocery channels.

Reported and underlying operating revenue both increased $1.4 billion, or more than 100%, over the first quarter of 2000, due primarily to the acquisition of Nabisco. If we had owned Nabisco during the first quarter of 2000, our underlying operating revenue would have increased 5.3%, due primarily to new biscuit and confectionery products.

Operating companies income increased $144 million, and underlying operating companies income increased $143 million, both more than 100%, over the first quarter of 2000, due primarily to a $155 million increase attributable to the Nabisco acquisition. Partially offsetting this increase were higher marketing, administration and research costs of $11 million, the majority of which related to higher marketing expenses. If we had owned Nabisco during the first quarter of 2000, our underlying operating companies income would have increased 21.0%, due primarily to higher volume from new biscuit and confectionery products and favorable margins.

Beverages, Desserts and Cereals. Total Beverages, Desserts and Cereals volume increased 12.5% over the first quarter of 2000. Excluding the estimated shift in volume attributable to the century date change, our underlying volume increased 9.8%. If we had owned Nabisco during the first quarter of 2000, our underlying volume would have increased 7.1% due primarily to volume gains in beverages and coffee. In beverages, volume increased due primarily to higher shipments of aseptic juice drinks. Volume in coffee increased due primarily to increases in Starbucks coffee sold through grocery stores and an increase in overall coffee consumption. In our desserts business, volume was slightly below the prior year, as increases in frozen whipped toppings and nutrition and energy snack bars were more than offset by lower shipments of dry packaged and refrigerated ready-to-eat desserts. Cereal volume declined, due primarily to increased competition in the ready-to-eat cereal category.

Operating revenue increased $69 million, or 4.9%, over the first quarter of 2000. This increase was due primarily to the impact of higher volume of $92 million, $41 million attributable to the Nabisco acquisition and $19 million attributable to the acquisition of Balance Bar Co., as well as the estimated shift in revenue attributable to the century date change of $22 million. Partially offsetting this increase were unfavorable product mix of $80 million and lower pricing of $29 million. Lower pricing was due to coffee price reductions as the cost for green coffee beans declined. Excluding the estimated shift in revenue attributable to the century date change, our underlying operating revenue increased 3.3%. If we had owned Nabisco during the first quarter of 2000, our underlying operating revenue would have decreased 0.2%.

Operating companies income increased $28 million, or 9.0%, over the first quarter of 2000. This increase was due primarily to the impact of higher volume of $60 million, higher margins of $14 million, the effect of the Nabisco acquisition of $5 million and the estimated shift in income attributable to the century date change of $7 million. Partially offsetting this increase was unfavorable product mix of $56 million. The unfavorable product mix was due primarily to the volume increase in aseptic juice drinks, which generate lower margins per pound than the aggregate margins per pound of our other beverages, desserts and cereals products. Excluding the estimated shift in income attributable to the century date change, our underlying operating companies income of $339 million for the first quarter of 2001 increased 6.6% over $318 million in the first quarter of 2000. If we had owned Nabisco during the first quarter of 2000, our underlying operating companies income would have increased 4.3%.

Oscar Mayer and Pizza. Total Oscar Mayer and Pizza volume grew 4.4% from the first quarter of 2000. Excluding the estimated shift in volume attributable to the century date change, our underlying volume increased 3.0%, due to volume gains in both processed meats and pizza. Volume increased in our processed meats business due to hot dogs, bacon, luncheon meats, and soy-based meat alternatives. Lunch combinations volume was down due to the timing of shipments. Volume in our pizza business increased, driven by new products.

Operating revenue increased $53 million, or 6.4%, over the first quarter of 2000. This increase was due primarily to the impact of higher volume of $17 million, favorable product mix of $13 million, the estimated shift in revenue attributable to the century date change of $12 million and $7 million from the acquisition of Boca Burger. Excluding the estimated shift in revenue attributable to the century date change, our underlying operating revenue increased 4.9%.

Operating companies income increased $16 million, or 12.1%, from the first quarter of 2000. This increase was due primarily to higher margins of $15 million, the impact of higher volume of $8 million, favorable product mix of $11 million and the estimated shift in income attributable to the century date change of $4 million. Partially offsetting this increase were higher marketing, administration and research costs of $21 million, the majority of which related to higher marketing expenses. Higher margins were due primarily to lower manufacturing costs. Favorable product mix was due primarily to volume increases in higher margin pizza and processed meat products. Excluding the estimated shift in income attributable to the century date change, our underlying operating companies income of $148 million for the first quarter of 2001 increased 8.8% over $136 million in the first quarter of 2000.

2000 Compared with 1999

Kraft Foods North America's volume for 2000 increased 2.8% over 1999. Excluding the impact of divested businesses and the estimated shift in volume attributable to the century date change, volume increased 3.8%, of which 1.6 percentage points related to the impact of the 53rd week of shipments, partially offset by a 1.3 percentage point decrease related to trade inventory reductions in 2000.

Operating revenue increased $564 million, or 3.2%, over 1999, due primarily to the $483 million impact of higher volume, the impact of acquisitions of $148 million and higher pricing of $79 million. Partially offsetting these increases was the estimated shift in revenue attributable to the century date change of $142 million.

Operating companies income grew by $357 million, or 11.2%, to $3.5 billion, due primarily to higher margins of $318 million, driven by higher pricing coupled with lower commodity-related costs. Also contributing to this increase was the absence of the 1999 pre-tax charge for separation programs of $157 million and the impact of higher volume of $283 million. Partially offsetting these increases were higher marketing, administration and research costs of $310 million, the majority of which related to higher marketing expenses; unfavorable product mix of $43 million; and the estimated shift in income attributable to the century date change of $54 million. Our underlying 2000 operating companies income increased 7.8% from 1999.

The following discusses operating results within each of Kraft Foods North America's business segments.

Cheese, Meals and Enhancers. Total Cheese, Meals and Enhancers volume decreased 1.1% from 1999 driven by a 7.1% decline in our United States food service business, which more than offset an increase in our retail businesses. We recently reached the contractual termination of an exclusivity agreement with a single food service distributor and are moving to open distribution of our Kraft branded food service products. This transition resulted in lower food service volume in 2000. Also contributing to the decrease in food service volume was the loss of a contract to supply cold cuts and the pruning of low margin products. Cheese volume increased over 1999 with gains in process, natural and cream cheese products. Meals volume was lower in 2000, reflecting lower shipments of Mexican dinners and rice. Enhancers volume decreased slightly. Volume in Canada grew due to new product introductions. Excluding the impact of divested businesses and the estimated shift in volume attributable to the century date change, our underlying 2000 volume decreased 0.3%.

Operating revenue increased $45 million, or 0.5%, over 1999, due primarily to favorable product mix of $128 million and favorable currency exchange rates of $30 million. Partially offsetting these increases were the impact of lower volume of $29 million, the estimated shift in revenue attributable to the century date change of $68 million and the impact of divestitures of $15 million.

Operating companies income increased $187 million, or 11.3%, over 1999 due to higher margins of $254 million, driven by lower commodity-related and manufacturing costs. Also contributing to this increase was favorable product mix of $81 million and the absence of the 1999 separation charge of $71 million. Partially offsetting these increases were higher marketing, administration and research costs of $171 million, primarily from marketing; the estimated shift in income attributable to the century date change of $30 million; and the impact of lower volume of $14 million. Our marketing expense increased as we increased price promotions on cheese products during 2000 in the United States during a period of intense competition that resulted from low cheese commodity costs. Favorable product mix was the result of lower volume in low-margin food service products. Excluding the impact of the 1999 separation charges, the income of divested businesses and the estimated shift in income attributable to the century date change, our underlying 2000 operating companies income of $1.9 billion increased 8.8% from $1.7 billion in 1999.

Biscuits, Snacks and Confectionery. Total Biscuits, Snacks and Confectionery volume grew 14.9% over 1999, reflecting the continued success of two-compartment snacks and the introduction of new intense mint and chocolate products.

Operating revenue increased $64 million, or 24.2%, over 1999, due primarily to the impact of higher volume. Operating companies income increased $27 million, or 37.0%, due primarily to the impact of higher volume of $45 million and the absence of the 1999 separation charge of $2 million. Partially offsetting these increases were higher marketing, administration and research costs of $24 million. Excluding the 1999 separation charges and the estimated shift in revenue attributable to the century date change, our underlying 2000 operating companies income of $101 million increased 36.5% from $74 million in 1999.

Beverages, Desserts and Cereals. Total Beverages, Desserts and Cereals volume grew 8.1% from 1999. Beverages volume grew on the strength of aseptic juice drinks, reflecting new product introductions, and higher coffee shipments due to growth in Starbucks bagged coffees. Volume also grew in frozen whipped toppings, due in part to the introduction of new products. Partially offsetting these increases were declines in ready-to-eat cereals, due to an intensely competitive environment, and in dry packaged desserts, reflecting lower promotions. Excluding the estimated shift in volume attributable to the century date change, our underlying 2000 volume grew 9.5%, of which approximately 0.6 percentage points related to the acquisition of Balance Bar.

Operating revenue increased $192 million, or 3.8%, over 1999, due primarily to the impact of higher volume of $250 million and $113 million from the acquisition of Balance Bar. Partially offsetting these increases were unfavorable product mix of $124 million and the estimated shift in revenue attributable to the century date change of $44 million.

Operating companies income increased $81 million, or 8.0%, over 1999. This increase was due primarily to the impact of higher volume of $154 million; the absence of the 1999 separation charges of $46 million; higher margins of $20 million, due primarily to lower commodity costs; and the acquisition of Balance Bar. Partially offsetting these increases were unfavorable product mix of $104 million; higher marketing, administration and research costs of $29 million, primarily from marketing; and the estimated shift in income attributable to the century date change of $14 million. Our unfavorable product mix was due primarily to the volume increase in aseptic juice drinks, which generate lower margins per pound than the aggregate margins per pound of our other beverages, desserts and cereals products. The increase in marketing expense reflected introductions of new aseptic juice drink products, partially offset by lower marketing attributable to powdered soft drinks, dry packaged desserts and ready-to-eat cereals. Excluding the impact of the 1999 separation charges and the estimated shift in income attributable to the century date change, our underlying 2000 operating companies income of $1.1 billion increased 4.7% from $1.0 billion in 1999.

Oscar Mayer and Pizza. Total Oscar Mayer and Pizza volume grew 5.2% from 1999. Volume grew in pizza, reflecting the continued success of our rising crust pizza and new product introductions. Volume growth also reflected the introduction of Mega Pack Lunchables lunch combinations, the acquisition of Boca Burger and gains in hot dogs and cold cuts. Excluding the estimated shift in volume attributable to the century date change, our underlying 2000 volume increased 5.9%, of which approximately 0.8 percentage points related to the acquisition of Boca Burger.

Operating revenue increased $263 million, or 8.2%, over 1999, due primarily to the impact of higher volume of $190 million, higher pricing of $82 million and $35 million from the acquisition of Boca Burger. This increase in operating revenue was partially offset by the estimated shift in revenue attributable to the century date change of $24 million and unfavorable product mix of $22 million.

Operating companies income increased $62 million, or 13.8%, over 1999. This increase was due primarily to the impact of higher volume of $98 million, higher margins of $43 million and the absence of the 1999 separation charge of $38 million. Partially offsetting these increases were higher marketing, administration and research costs of $86 million, primarily from marketing; unfavorable product mix of $20 million; and the estimated shift in income attributable to the century date change of $8 million. Higher marketing expense and unfavorable product mix both reflected the effects of new product introductions during 2000. Excluding the impact of the 1999 separation charges and the estimated shift in income attributable to the century date change, our underlying 2000 operating companies income of $516 million increased 6.6% from $484 million in 1999.

1999 Compared with 1998

Kraft Foods North America's volume increased 2.1% during 1999, of which approximately 0.5 percentage points related to the estimated shift in volume attributable to the century date change.

Operating revenue increased $257 million, or 1.5%, over 1998, due primarily to the impact of higher volume of $93 million, the estimated shift in revenue attributable to the century date change of $71 million and favorable pricing of $65 million.

Operating companies income grew $62 million, or 2.0%, over 1998. This increase was due primarily to higher margins of $428 million, driven by lower commodity and manufacturing costs; the impact of higher volume of $58 million; and the estimated shift in income attributable to the century date change of $27 million. Partially offsetting these increases were higher marketing, administration and research costs of $247 million, the majority of which related to higher marketing expenses; separation charges of $157 million; and unfavorable product mix of $20 million. Marketing expense increased across all segments, with the largest increase in Cheese, Meals and Enhancers, as we increased price promotions on cheese products. Excluding the impact of divested businesses, the 1999 separation charges and the estimated shift in income attributable to the century date change, our underlying 1999 operating companies income increased 6.1% over 1998.

The following discusses operating results within each of Kraft Foods North America's business segments.

Cheese, Meals and Enhancers. Total Cheese, Meals and Enhancers volume decreased 0.8% from 1998, due primarily to lower food service shipments and the exit of lower-margin product lines in Canada. Enhancers also contributed to the volume decline as lower shipments of spoonable dressings more than offset increases in barbecue sauce. Partially offsetting the overall volume decline was cheese volume, which increased over 1998 with gains in several product lines. Meals volume also increased due primarily to the introduction of new products. Excluding the impact of divested businesses and the estimated shift in volume attributable to the century date change, underlying 1999 volume decreased 1.1% from 1998.

During 1999, operating revenue increased $38 million, or 0.4%, over 1998, due primarily to higher pricing of $140 million and the estimated shift in revenue attributable to the century date change of $34 million. These increases were partially offset by the impact of lower volume of $131 million.

Operating companies income increased $59 million, or 3.7%, over 1998. This increase was due primarily to higher margins of $340 million, driven by higher pricing coupled with lower commodity and manufacturing costs; the estimated shift in income attributable to the century date change of $15 million; and favorable product mix of $38 million. Partially offsetting these increases were higher marketing, administration and research costs of $179 million, primarily from marketing; the impact of lower volume of $73 million; and 1999 separation charges of $71 million. Marketing expense increased due to price promotions on cheese products and the introduction of new products. Favorable product mix was the result of lower volume in lower-margin food service products and the discontinuance of lower-margin product lines in Canada. Excluding the impact of the 1999 separation charges, the income of divested businesses and the estimated shift in income attributable to the century date change, underlying 1999 operating companies income of $1.7 billion increased 7.2% over 1998.

Biscuits, Snacks and Confectionery. Total volume grew 9.3% over 1998 on the continued success of intense mints and two-compartment snacks. Excluding the estimated shift in volume attributable to the century date change, underlying 1999 volume increased 7.0% over 1998.

During 1999, operating revenue increased $45 million, or 20.5%, over 1998, due primarily to favorable product mix of $23 million and the impact of higher volume of $18 million.

Operating companies income increased $19 million, or 35.2%, over 1998, due primarily to favorable product mix of $19 million and higher volume of $11 million. These increases were partially offset by higher marketing, administration and research costs. Higher marketing expense and favorable product mix both reflected growth in our intense mints business. Excluding the 1999 separation charges and the estimated shift in income attributable to the century date change, underlying 1999 operating companies income of $74 million increased 37.0% from $54 million in 1998.

Beverages, Desserts and Cereals. Total Beverages, Desserts and Cereals volume grew 6.6% over 1998. Volume grew in aseptic juice drinks, as well as in powdered soft drinks, both fueled by new product introductions. Coffee volume grew on the successful rollout of Starbucks bagged coffee to grocery customers throughout 1999. Volume also grew in ready-to-eat refrigerated desserts and in frozen whipped toppings. Partially offsetting these increases were declines in dry packaged desserts and ready-to-eat cereals, due to intense competition. Excluding the estimated shift in volume attributable to the century date change, underlying 1999 volume increased 5.9% over 1998.

During 1999, operating revenue increased $35 million, or 0.7%, due primarily to the impact of higher volume of $117 million, acquisitions of $91 million and the estimated shift in revenue attributable to the century date change of $22 million. Partially offsetting these increases were unfavorable mix of $113 million and lower pricing of $81 million.

Operating companies income increased $4 million, or 0.4%, over 1998, due primarily to the impact of higher volume of $74 million, higher margins of $69 million and the estimated shift in income attributable to the century date change. Partially offsetting these increases were unfavorable product mix of $71 million, the 1999 separation charges of $46 million and higher marketing, administration and research costs. The unfavorable product mix was due primarily to the volume increase in aseptic juice drinks. Excluding the 1999 separation charges and the estimated shift in income attributable to the century date change, underlying 1999 operating companies income of $1.0 billion increased 4.3% from 1998.

Oscar Mayer and Pizza. Total Oscar Mayer and Pizza volume grew 3.2% over 1998. Volume grew in pizza, reflecting the continued success of our rising crust pizza and new product introductions. Volume also grew in lunch combinations, bacon and hot dogs. Partially offsetting these increases was a decline in cold cuts. Excluding the estimated shift in volume attributable to the century date change, underlying 1999 volume increased 2.9% over 1998.

During 1999, operating revenue increased $139 million, or 4.5%, over 1998, due primarily to the impact of higher volume of $89 million, the estimated shift in revenue attributable to the century date change of $12 million and favorable product mix of $33 million.

Operating companies income decreased $20 million, or 4.3%, from 1998. This decrease was due primarily to the 1999 separation charge of $38 million, the impact of higher marketing, administration and research costs of $30 million, primarily from marketing, and increased expense related to food safety. These decreases were partially offset by the impact of higher volume of $46 million and the estimated shift in income attributable to the century date change of $4 million. The increase in marketing expense was due primarily to the introduction of new pizza products. Excluding the 1999 separation charges and the estimated shift in income attributable to the century date change, underlying 1999 operating companies income of $484 million increased 3.0% over $470 million in 1998.

Kraft Foods International

The following table is a reconciliation of Kraft Foods International's reported operating results to underlying operating results for each of the three years in the period ended December 31, 2000, and for the first quarter of 2000 and 2001:

	Year Ended December 31,			First Quarter Ended March 31,	
	1998	1999	2000	2000	2001
	(dollars and pounds in millions)				
Reported volume (in pounds)	3,645	3,580	3,632	811	1,119
Volume of businesses sold:					
Europe, Middle East and Africa	(161)	(91)	(38)	(13)	
Latin America and Asia Pacific	(40)	(33)			
Estimated impact of century date change:					
Europe, Middle East and Africa		(7)	7	7	
Latin America and Asia Pacific		(7)	7	7	
Underlying volume (in pounds)	3,444	3,442	3,608	812	1,119
Reported operating revenue	$ 9,671	$ 8,900	$ 8,071	$ 1,926	$ 2,085
Operating revenue of businesses sold:					
Europe, Middle East and Africa	(461)	(294)	(131)	(46)	
Latin America and Asia Pacific	(57)	(33)			
Estimated impact of century date change:					
Europe, Middle East and Africa		(14)	14	14	
Latin America and Asia Pacific		(12)	12	12	
Underlying operating revenue	$ 9,153	$ 8,547	$ 7,966	$ 1,906	$ 2,085
Reported operating companies income	$ 1,054	$ 1,063	$ 1,208	$ 200	$ 239
Gain on sale of a French confectionery business:					
Europe, Middle East and Africa			(139)		
Operating companies income of businesses sold:					
Europe, Middle East and Africa	(66)	(52)	(32)	(8)	
Latin America and Asia Pacific	(1)	(2)			
Estimated impact of century date change:					
Europe, Middle East and Africa		(8)	8	8	
Latin America and Asia Pacific		(5)	5	5	
Underlying operating companies income	$ 987	$ 996	$ 1,050	$ 205	$ 239

First Quarter 2001 Compared with First Quarter 2000

Kraft Foods International's volume for the first quarter of 2001 increased 38.0% over the first quarter of 2000. Excluding the impact of divested businesses and the estimated shift in volume attributable to the century date change, our underlying volume increased 37.8%, due primarily to the acquisition of Nabisco. If we had owned Nabisco during the first quarter of 2000, our underlying volume would have increased 3.3%.

Operating revenue increased $159 million, or 8.3%, over the first quarter of 2000. Excluding the estimated shift in revenue attributable to the century date change and the revenue of divested businesses, our underlying operating revenue increased $179 million, or 9.4%, due primarily to a $287 million increase attributable to the Nabisco acquisition and higher volume of $31 million. This increase was partially offset by unfavorable currency exchange rates of $157 million. If we had owned Nabisco during the first quarter of 2000, operating revenue would have decreased 4.4% from the comparable 2000 period, due primarily to unfavorable currency exchange rates.

Operating companies income increased $39 million, or 19.5%, from the first quarter of 2000. Excluding the estimated shift in income related to the century date change and the income of divested businesses, our underlying operating companies income increased $34 million, or 16.6%. This increase was due primarily to an $18 million increase attributable to the Nabisco acquisition, higher volume of $22 million and lower marketing, administration and research costs of $15 million. This increase was partially offset by unfavorable currency exchange rates of $18 million. If we had owned Nabisco during the first quarter of 2000, our underlying operating companies income would have increased 8.6%.

The following discusses operating results within each of Kraft Foods International's business segments.

Europe, Middle East and Africa. Volume in Europe, Middle East and Africa grew 0.9% from the first quarter of 2000. Excluding the volume of divested businesses and the estimated shift in volume attributable to the century date change, our underlying volume increased 1.9%, due primarily to the acquisition of Nabisco. If we had owned Nabisco during the first quarter of 2000, underlying volume would have increased 0.4%, as gains in the developing markets of Central and Eastern Europe and growth in many Western European markets were mostly offset by lower volume in Germany and lower canned meats volume in Italy. In beverages, coffee volume was lower in Germany due to reduced trade purchases in anticipation of lower coffee prices. Snacks volume increased, driven by confectionery and salty snacks. Cheese volume grew, driven primarily by cream cheese in Italy, Belgium and Spain and process cheese in the United Kingdom and Spain. In grocery, lower ketchup volume in Germany was partially offset by higher spoonable dressing shipments in Spain and Greece.

Operating revenue decreased $136 million, or 8.3%, from the first quarter of 2000. Excluding the estimated shift in revenue attributable to the century date change and the revenue of divested businesses, our underlying operating revenue decreased $104 million, or 6.5%. This decrease was due primarily to unfavorable currency exchange rates of $118 million. Partially offsetting this decrease was $12 million attributable to the Nabisco acquisition. If we had owned Nabisco during the first quarter of 2000, underlying operating revenue would have decreased 7.1%, due primarily to unfavorable currency exchange rates.

Operating companies income increased $2 million, or 1.2%, over the first quarter of 2000. Excluding the estimated shift in income attributable to the century date change and the income of divested businesses, our underlying operating companies income also increased $2 million, or 1.2%, over the first quarter of 2000. This increase was due primarily to the impact of higher volume of $14 million, partially offset by unfavorable currency exchange rates of $12 million. If we had owned Nabisco during the first quarter of 2000, our underlying operating companies income would have increased 1.8%.

Latin America and Asia Pacific. Latin America and Asia Pacific volume grew more than 100% from the first quarter of 2000, due primarily to the acquisition of Nabisco. If we had owned Nabisco during the first quarter of 2000, underlying volume would have increased 7.5% due to gains across most categories. Beverages volume increased, due primarily to refreshment beverages volume growth, including powdered soft drinks in

Brazil, China, the Philippines and Argentina and juice concentrate in Brazil. Snacks volume increased, driven primarily by higher biscuit volume in Brazil and China. In confectionery, volume grew in Asia Pacific due to chewy candy in China and Southeast Asia. Cheese volume increased, due primarily to cream cheese in Australia, Japan and the Caribbean, and process cheese in Australia and the Philippines. Grocery volume was higher, due primarily to higher shipments of spoonable dressings in the Philippines.

Operating revenue increased $295 million, more than 100% over the first quarter of 2000. Excluding the estimated shift in revenue attributable to the century date change and the revenue of divested businesses, our underlying operating revenue increased $283 million, or 94.6%. This increase was due primarily to a $275 million increase attributable to the Nabisco acquisition, the impact of higher volume of $12 million and higher pricing of $6 million. This increase was partially offset by unfavorable currency exchange rates. If we had owned Nabisco during the first quarter of 2000, underlying operating revenue would have increased 3.2%.

Operating companies income increased $37 million, more than 100% from the first quarter of 2000. Excluding the estimated shift in income attributable to the century date change and the income of divested businesses, our underlying operating companies income increased $32 million, or 91.4%. This increase was due primarily to an $18 million increase attributable to the Nabisco acquisition, lower marketing, administration and research costs of $12 million and higher volume of $8 million. This increase was partially offset by unfavorable currency exchange rates. If we had owned Nabisco during the first quarter of 2000, underlying operating companies income would have increased 31.4%.

2000 Compared with 1999

Kraft Foods International's volume increased 1.5% during 2000. Excluding the impact of divested businesses and the estimated shift in volume attributable to the century date change, volume increased 4.8%, of which 1.6 percentage points related to the impact of the 53rd week of shipments in 2000.

Operating revenue decreased $829 million, or 9.3%, from 1999. This decrease was due primarily to unfavorable currency exchange rates of $887 million, the impact of divestitures of $196 million, the estimated shift in revenue attributable to the century date change of $52 million and lower pricing of $30 million, due primarily to lower coffee prices. Partially offsetting these decreases was the impact of higher volume of $291 million.

Operating companies income grew by $145 million, or 13.6%, to $1.2 billion, due primarily to the impact of higher volume of $147 million, the gain on sale of the French confectionery business of $139 million and higher margins of $84 million, primarily relating to lower commodity costs. Partially offsetting these increases were unfavorable currency exchange rates of $96 million, higher marketing, administration and research costs of $78 million, the estimated shift in income attributable to the century date change of $26 million and the impact of divested businesses of $22 million. Excluding the gain on sale of the French confectionery business, the income of divested businesses and the estimated shift in income attributable to the century date change, our underlying 2000 operating companies income of $1,050 million increased 5.4% from $996 million in 1999.

The following discusses operating results within each of Kraft Foods International's business segments.

Europe, Middle East and Africa. Total volume in Europe, Middle East and Africa increased 0.5% over 1999. Adjusting for the estimated shift in volume attributable to the century date change and excluding the volume from divested businesses, volume grew 2.9% over 1999, with growth in all product categories. In beverages, coffee volume benefited from strong growth in the developing markets of Central and Eastern Europe and in the established markets of Sweden, Austria, Italy and the United Kingdom. Volume in refreshment beverages grew in Central and Eastern Europe, driven by the expansion of powdered soft drinks. Volume growth in snacks reflected double-digit gains in salty snacks on expansion into Central and Eastern Europe, as well as successful new confectionery product launches and line extensions. Cheese volume grew on the strength of Philadelphia cream cheese, reflecting successful marketing programs across Europe and a re-launch in the Middle East. Volume also grew for process cheese in Italy and Spain. In convenient meals, volume grew on the successful launch of new Lunchables varieties in the United Kingdom and line extensions of packaged dinners in Germany and Belgium. Volume grew in grocery, reflecting gains in spoonable dressings, benefiting from effective marketing programs in Italy and new product launches in Spain.

Operating revenue decreased $852 million, or 11.1%, from 1999. This decrease was due primarily to unfavorable currency exchange rates of $830 million, the impact of divestitures of $163 million, lower pricing of $60 million, due to the effect of lower coffee commodity costs, and the estimated shift in revenue attributable to the century date change of $28 million. These decreases were partially offset by the favorable impact of higher volume of $186 million.

Operating companies income increased $124 million, or 13.9%, over 1999. This increase was due primarily to the $139 million gain on the sale of the French confectionery business, the impact of higher volume of $104 million and higher margins of $70 million, primarily due to favorable coffee commodity costs. Partially offsetting these increases were unfavorable currency exchange rates of $97 million, higher marketing, administration and research costs of $58 million, the impact of divestitures of $20 million and the estimated shift in income attributable to the century date change of $16 million. The increase in marketing expense reflected new product introductions. Excluding the gain on sale of the French confectionery business, the impact of divested businesses and the estimated shift in income attributable to the century date change, our underlying 2000 operating companies income of $856 million grew 2.5% from $835 million in 1999.

Latin America and Asia Pacific. Latin America and Asia Pacific volume grew 5.1% over 1999. Adjusting for the estimated shift in volume attributable to the century date change and excluding the volume from divested businesses, volume grew 11.9% over 1999, led by strong growth in Brazil, Australia, China, the Philippines, Indonesia, Japan and Korea and higher exports to the Caribbean. Beverages volume grew due to increased coffee volume in the Caribbean and China. Refreshment beverages volume grew strongly, benefiting from new flavors in Brazil, successful marketing programs in China and the Philippines, and expansion into Thailand. Snacks volume gains were driven by double-digit confectionery volume growth in Asia Pacific, reflecting new product launches in Indonesia, China and the Philippines. In Latin America, volume benefited from the launch of new chocolate products in Brazil. Cheese volume grew, driven by successful marketing and promotion of Philadelphia cream cheese in Australia and Japan, as well as gains in process cheese in the Philippines and Indonesia. Convenient meals volume grew, led by exports of macaroni & cheese dinners to Asian markets. Grocery volume grew on higher shipments of yeast spread in Australia and increased shipments of gelatins and cereals to Asia.

Operating revenue increased $23 million, or 1.9%, over 1999, due primarily to the impact of higher volume of $105 million and increased pricing of $30 million. Partially offsetting these increases were unfavorable currency exchange rates of $57 million, the impact of divestitures of $33 million and the estimated shift in revenue attributable to the century date change of $24 million.

Operating companies income grew $21 million, or 12.5%, over 1999, due primarily to higher volume of $43 million and pricing of $14 million. Partially offsetting these increases were higher marketing, administration and research costs of $20 million and the estimated shift in income attributable to the century date change of $10 million. Excluding the estimated shift in income attributable to the century date change and the impact of divested businesses, our underlying 2000 operating companies income of $194 million grew 20.5% from $161 million in 1999.

1999 Compared with 1998

Kraft Foods International's volume decreased 1.8% during 1999. Excluding divested businesses and the estimated shift in volume attributable to the century date change, underlying volume decreased 0.1%.

Operating revenue decreased $771 million, or 8.0%, from 1998. This decrease was due primarily to lower pricing of $366 million, resulting from lower coffee commodity costs, unfavorable currency exchange rates of $303 million and the impact of divestitures.

Operating companies income grew 0.9% over 1998. This increase was due primarily to higher margins of $79 million, resulting from lower commodity costs, and the estimated shift in income attributable to the century date change of $13 million. Partially offsetting this growth were higher marketing, administration and research costs of $47 million and unfavorable currency exchange rates.

The following discusses operating results within each of Kraft Foods International's business segments.

Europe, Middle East and Africa. Volume in Europe, Middle East and Africa decreased 2.5% from 1998. Excluding the impact of divested businesses and the estimated shift in volume attributable to the century date change, our underlying volume decreased 0.3%, as lower snacks volume was partially offset by volume gains in beverages, convenient meals and grocery. In beverages, coffee volume grew in France, Spain, Denmark, Switzerland, Hungary and the Slovak Republic. In refreshment beverages, volume benefited from the expansion of powdered soft drinks in Central and Eastern Europe. In convenient meals, volume growth was driven by the launch of lunch combinations in Germany and their success in the United Kingdom. In snacks, confectionery volume was lower due to economic weakness in Russia and other parts of Eastern Europe, as well as unusually hot summer weather across Europe.

During 1999, operating revenue decreased $631 million, or 7.6%, from 1998. This decrease was due primarily to lower pricing of $378 million, resulting from lower coffee commodity costs, the impact of divestitures of $167 million and unfavorable currency exchange rates. These decreases were partially offset by the estimated shift in revenue attributable to the century date change of $14 million.

Operating companies income increased $11 million, or 1.2%, over 1998. This increase was due primarily to higher margins of $63 million, driven by favorable coffee and cocoa commodity costs; favorable product mix of $24 million; and the estimated shift in income attributable to the century date change of $8 million. Partially offsetting these increases were higher marketing, administration and research costs of $49 million, the impact of divestitures of $14 million and unfavorable currency exchange rates of $21 million. Favorable product mix resulted from lower volume in lower-margin products in Russia and Eastern Europe. Higher marketing expense reflected product launches in Western Europe. Excluding divested businesses and the estimated shift in income attributable to the century date change, our underlying 1999 operating companies income of $835 million grew 2.1% from $818 million in 1998.

Latin America and Asia Pacific. Latin America and Asia Pacific volume increased 0.8% over 1998. Excluding the impact of divestitures and the estimated shift in volume attributable to the century date change, our underlying volume increased 0.8%, driven by growth in Asia Pacific, reflecting gains in cheese, convenient meals and grocery volumes. In cheese, higher volume was reported in Australia, Japan, the Philippines and Indonesia. In grocery, volume benefited from growth in Australia, reflecting gains in spoonable and pourable salad dressings and peanut butter. This increase was partially offset by lower volume in Latin America, due primarily to lower confectionery volume in Brazil and lower powdered soft drinks volume in Argentina. Lower powdered soft drinks volume in Argentina reflected sales lost to cola products as cola producers continued to reduce prices.

During 1999, operating revenue decreased $140 million, or 10.3%, from 1998, due primarily to unfavorable currency exchange rates of $156 million and the impact of divestitures of $24 million. These decreases were partially offset by the estimated shift in revenue attributable to the century date change of $12 million, higher pricing of $12 million and the impact of higher volume of $10 million.

Operating companies income decreased by $2 million, or 1.2%, from 1998, due primarily to unfavorable currency exchange rates of $15 million and unfavorable product mix of $12 million. These decreases were partially offset by higher pricing of $16 million, the estimated shift in income attributable to the century date change of $5 million and lower marketing, administration and research costs. The unfavorable product mix reflected lower powdered soft drinks volume in Argentina and lower confectionery volume in Brazil. Excluding the estimated shift in income attributable to the century date change and the impact of divested businesses, underlying 1999 operating companies income of $161 million decreased 4.7% from $169 million in 1998.

Financial Condition and Liquidity

Net Cash Provided by Operating Activities. During the first quarter of 2001, our net cash provided by operating activities was $2 million compared with $548 million in the first quarter of 2000. The decrease in net cash provided by operating activities reflects unusual timing of payments and receipts as follows:

- The estimated $155 million shift in cash outflows from the first quarter of 2000 to the fourth quarter of 1999 attributable to the century date change.

- The 53rd week in the fourth quarter of 2000 resulted in the collection of $80 million of accounts receivable from holiday sales. We would normally have collected these receivables in the first quarter of 2001.

- We paid taxes of $76 million in the first quarter of 2001 related to the gain on the sale of our French confectionery business in 2000.

- Our cash spending on other working capital items increased $248 million as compared with the first quarter of 2000, due primarily to the timing of marketing spending and the payment of accrued salaries and benefits, as well as severance and change in control costs due to the acquisition of Nabisco.

While our operating cash flow was unusually low in the first quarter of 2001, we estimate that net cash provided by operating activities will be approximately $3.0 billion for the year 2001.

During 2000, our net cash provided by operating activities was $3.3 billion, compared with $2.7 billion in 1999 and $2.3 billion in 1998. The increase in 2000 operating cash flow over 1999 primarily reflected increased net earnings of $248 million and reduced levels of receivables and inventories of $318 million, which included the estimated shift in working capital attributable to the century date change. The increase in 1999 operating cash flows over 1998 primarily reflected higher net earnings of $121 million and a reduced level of receivables of $476 million, offset in part by a $179 million increase in inventories. The change in 1999 inventories reflected the estimated shift in working capital attributable to the century date change. Nabisco's operating cash flows are not included in our operating cash flows for any of the years presented because its results of operations were not included with ours.

Net Cash Used in Investing Activities. During the first quarter of 2001, our net cash used in investing activities was $194 million, down from $440 million in 2000. This decrease primarily reflects the decline in cash used for acquisitions. During the first quarter of 2000, we purchased Boca Burger and Balance Bar for an aggregate cost of $358 million. During the first quarter of 2001, we purchased coffee businesses in Romania and Morocco for an aggregate purchase price of $33 million.

During 2000, net cash used in investing activities was $16.1 billion, up from $669 million in 1999 and $763 million in 1998. The increase in 2000 primarily reflected the purchase of Nabisco in December 2000.

Our capital expenditures increased to $906 million in 2000 from $860 million in 1999 and $841 million in 1998. These expenditures were made primarily to modernize our manufacturing facilities, lower our cost of production and expand our production capacity for our growing product lines. We expect capital expenditures to be approximately $1.3 billion in 2001 and to be funded from operations. The expected increase in 2001 spending reflects the inclusion of Nabisco's operations and expenditures related to the integration of the Nabisco business. The majority of integration expenditures in 2001 represents information systems costs to bring Nabisco's headquarters, sales offices and plants in line with Kraft's systems, and increased spending on machinery and equipment as we consolidate Nabisco and Kraft production worldwide.

Net Cash Provided by Financing Activities. During the first quarter of 2001, our financing activities provided net cash of $164 million, compared with $72 million used in financing activities during 2000. This difference was due primarily to net proceeds from the increase in the amounts due to Philip Morris in the first quarter of 2001, compared with net debt repayments during the first quarter of 2000.

During 2000, financing activities provided net cash of $13.0 billion, as we issued $15.0 billion of long-term notes payable to Philip Morris in connection with the Nabisco acquisition, paid dividends of $1.0 billion and repaid debt. During 1999 and 1998, we used net cash in financing activities primarily to pay dividends of $3.0 billion in 1999 and $2.2 billion in 1998.

Working Capital, Debt and Liquidity. In managing our business, we attempt to reduce working capital to minimum levels. Our working capital deficit at March 31, 2001, was $1 million, as compared to a deficit of $438 million at December 31, 2000. This change was due primarily both to a decrease in accounts payable, reflecting the timing of payments, and to higher raw material purchases, primarily cheese, in advance of rising commodity costs.

Our working capital at December 31, 1999 was $517 million, as compared to a working capital deficit of $438 million at December 31, 2000. Contributing to the 2000 decrease were reductions in accounts receivable and inventories of $379 million, due primarily to our continued management of these assets and a reduction of approximately $150 million of inventories that were maintained at the end of 1999 in advance of the century date change. Also contributing to this decrease was our acquisition of Nabisco, which further reduced working capital at December 31, 2000 by $497 million.

Our total debt, including intercompany accounts payable to Philip Morris, was $26.2 billion at March 31, 2001, and $25.8 billion at December 31, 2000. Our debt-to-equity ratio was 1.8 at March 31, 2001, and at December 31, 2000. Our total debt, including intercompany accounts payable to Philip Morris, was $7.8 billion at December 31, 1999. Our debt-to-equity ratio was 0.6 at December 31, 1999. The increases in our debt and debt-to-equity ratio in 2000 were the result of our borrowings to fund the acquisition of Nabisco.

In connection with the acquisition of Nabisco, Philip Morris entered into a $9.0 billion, 364-day revolving credit agreement, expiring in October 2001. We anticipate that Philip Morris will transfer the credit facility to us following this offering or, alternatively, we may enter into a new facility. The principal conditions to the assignment of the existing facility are the completion of this offering, the completion of satisfactory documentation and covenants, and our maintaining our existing credit ratings described below. There are no borrowings currently outstanding under this credit facility and we do not expect that there will be any outstanding borrowings if and when it is transferred to us. We intend to use either the $9.0 billion facility or a new facility to support commercial paper borrowings, the proceeds of which will be used to retire a portion of our long-term notes payable to Philip Morris. In addition, we maintain committed and uncommitted credit facilities with a number of lending institutions amounting to approximately $430 million, of which approximately $284 million were unused at December 31, 2000. We maintain these facilities primarily to meet short-term working capital needs of our international businesses.

We issued $15.0 billion of notes payable to Philip Morris due in 2002 in connection with the acquisition of Nabisco. $11.0 billion of these notes payable bear interest at 7.75% and the balance of the notes bear interest at 7.40%. Previously, we had issued a note payable to Philip Morris in the principal amount of $5.0 billion bearing interest at 7.00% due in 2009 and two Swiss franc notes payable to Philip Morris, the first in the principal amount of $692 million bearing interest at 3.58% and due in 2006, and the second in the principal amount of $715 million bearing interest at 4.58% and due in 2008. Subsequent to March 31, 2001, we refinanced the two long-term Swiss franc notes payable to Philip Morris with short-term Swiss franc borrowings from Philip Morris at variable interest rates based on six-month LIBOR plus twenty-five basis points. The United States dollar denominated notes must be prepaid from the proceeds of this offering and future external financings, other than proceeds from future external financings intended to refinance maturing indebtedness. All notes payable to Philip Morris must be prepaid in their entirety on the date on which Philip Morris ceases to control at least 50% of the voting power of our capital stock. Our cash from operations will not be sufficient to repay the indebtedness to Philip Morris due in 2002. Accordingly, we will seek to refinance this indebtedness. The nature and amount of our long-term and short-term debt and the proportionate amount of each can be expected to vary significantly as we repay Philip Morris with proceeds from commercial paper borrowings. We intend to refinance the commercial paper with the issuance of long-term debt as market conditions permit.

Following the repayment of debt to Philip Morris with the net proceeds from this offering, we will have long-term notes payable to Philip Morris of approximately $13.0 billion and we anticipate that our total debt will be approximately $17.8 billion and will result in annual interest expense of approximately $1.3 billion. In addition, we anticipate that the integration of Nabisco will result in additional costs of $500 million to $600 million, the majority of which will require cash payments for severance obligations. The integration of Nabisco may further result in charges related to existing Kraft facilities of $200 million to $300 million, less than 10% of which will require cash payments.

Philip Morris and certain of its affiliates provide us with various services, including planning, legal, treasury, accounting, auditing, insurance, human resources, office of the secretary, corporate affairs, information technology and tax services. In 2001, we will enter into a formal agreement with Philip Morris providing for a continuation of these services, the cost of which is expected to be approximately $300 million in 2001.

We believe that our cash from operations and existing credit facilities will be sufficient to meet our working capital needs and planned capital expenditures in 2001. However, we will not be able to meet the 2002 maturities of our notes payable to Philip Morris without external borrowings. Philip Morris has informed us that in the event we are unable to obtain such external borrowings due to capital market conditions, it would extend the maturities of our notes payable to Philip Morris until we are able to do so.

Our credit rating by Moody's is "P-1" in the commercial paper market and "A2" for long-term debt obligations. Our credit rating by Standards & Poor's is "A1" in the commercial paper market and "A" for long-term debt obligations. There is no assurance that we can maintain these ratings, and a ratings reduction could result in higher interest costs.

Market Risk

We are exposed to market risk, primarily related to foreign exchange rates, commodity prices and interest rates. We actively monitor these exposures. To manage these exposures, we enter into a variety of derivative financial instruments to reduce our exposure to market risk by creating offsetting exposures. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates, commodity prices and interest rates. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage our exposures. Since we use currency rate-sensitive and commodity price-sensitive instruments to hedge a certain portion of our existing and anticipated transactions, we expect that any loss in value for those instruments generally would be offset by increases in the value of those hedged transactions. We do not use derivative financial instruments for speculative purposes.

Foreign Exchange Rates. We are exposed to foreign currency exchange movements, primarily in European, Canadian, Australian, Asian and Latin American currencies. Consequently, we enter into various contracts, which change in value as foreign currency exchange rates change, to preserve the value of commitments and anticipated transactions. We use foreign currency option and forward contracts to hedge certain transaction exposures and anticipated foreign currency cash flows. We also enter into short-term currency swap contracts, primarily to hedge intercompany financing transactions denominated in foreign currencies. At March 31, 2001, we had option and forward foreign exchange contracts, principally for the Canadian dollar, the Japanese yen and the British pound. The aggregate notional amounts of these contracts were $315 million for both the purchase and sale of foreign currencies. At December 31, 2000 and 1999, we had option and forward foreign currency exchange contracts, principally for the Japanese yen, the Australian dollar and the Euro. The aggregate notional amounts of these contracts were $237 million and $231 million, respectively, for both the purchase and sale of foreign currencies.

Commodity Prices. We are exposed to price risk related to anticipated purchases of certain commodities used as raw materials by our businesses. Accordingly, we enter into commodity future, forward and option contracts to manage the fluctuations in prices of anticipated purchases. These contracts are primarily for cheese, coffee, cocoa, milk, sugar, wheat, corn and, beginning in 2000, energy. At March 31, 2001, we had net long commodity positions of $601 million. At December 31, 2000 and 1999, we had net long commodity positions of $617 million and $163 million, respectively. Unrealized gains or losses on net commodity positions were insignificant at March 31, 2001, and December 31, 2000 and 1999.

Interest Rates. We intend to manage our exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in our total debt portfolio. At December 31, 2000, nearly all of our debt was long-term at fixed rates, with the majority of it being indebtedness to Philip Morris. Subsequent to March 31, 2001, we refinanced the two long-term Swiss franc notes payable to Philip Morris with short-term Swiss franc borrowings from Philip Morris at variable interest rates based on six-month LIBOR plus twenty-five basis points. We intend to repay a portion of our fixed-rate debt with proceeds from this offering. Following this offering, provided various conditions are met, Philip Morris may assign to us a $9.0 billion, 364-day revolving credit agreement maturing in October 2001 that will enable us to borrow on a short-term basis at variable rates. Alternatively, we may enter into a new revolving credit agreement. Our intent is to use the revolving credit agreement as support for commercial paper borrowings, rather than borrowing against it.

Value at Risk. We use a value at risk computation to estimate the potential one-day loss in the fair value of our interest rate-sensitive financial instruments and to estimate the potential one-day loss in pre-tax earnings of our foreign currency and commodity price-sensitive derivative financial instruments. The computation estimate includes our:

- debt;
- short-term investments;
- foreign currency forwards, swaps and options; and
- commodity futures, forwards and options.

Anticipated transactions, foreign currency trade payables and receivables and net investments in foreign subsidiaries, which the foregoing instruments are intended to hedge, are excluded from the computation.

The computation estimates are made assuming normal market conditions, using a 95% confidence interval. We used a "variance/co-variance" model to determine the observed interrelationships between movements in interest rates and various currencies. These interrelationships were determined by observing interest rate and forward currency rate movements over the preceding quarter for the calculation of value at risk amounts at December 31, 1999 and 2000. The interest rate and forward currency rate movements were also monitored over each of the four preceding quarters for the calculation of average value at risk amounts during each year. The values of foreign currency and commodity options do not change on a one-to-one basis with the underlying currency or commodity, and are valued accordingly in the value at risk computation.

The estimated potential one-day loss in fair value of our interest rate-sensitive instruments, primarily debt, under normal market conditions and the estimated potential one-day loss in pre-tax earnings from foreign currency exchange rates and commodity instruments under normal market conditions, as calculated in the value at risk model, follow (in millions):

	Pre-tax Earnings Impact				Fair Value Impact			
	At 12/31/99	Average	High	Low	At 12/31/99	Average	High	Low
Instruments sensitive to:								
Interest rates...........					$52	$71	$87	$52
Foreign currency rates....	$15	$15	$19	$12				
Commodity prices..........	13	9	13	5				

	Pre-tax Earnings Impact				Fair Value Impact			
	At 12/31/00	Average	High	Low	At 12/31/00	Average	High	Low
Instruments sensitive to:								
Interest rates............					$166	$83	$166	$39
Foreign currency rates....	$20	$20	$24	$15				
Commodity prices..........	9	8	9	7				

This value at risk computation is a risk analysis tool designed to statistically estimate the maximum probable daily loss from adverse movements in interest rates, foreign currency rates and commodity prices under normal market conditions. The computation does not purport to represent actual losses in fair value or earnings to be incurred by us, nor does it consider the effect of favorable changes in market rates. We cannot predict actual future movements in market rates and do not present these results to be indicative of future movements in such market rates or to be representative of any actual impact that future changes in market rates may have on our future results or financial position.

New Accounting Standards

The Financial Accounting Standards Board has issued standards that mandate the accounting for derivative financial instruments. Effective January 1, 2001, we adopted these standards. These standards require that all of our derivative financial instruments be recorded on our combined balance sheets at their fair value as either assets or liabilities. Changes in the fair value of derivatives are recorded each period in earnings or accumulated other comprehensive losses. How the derivative is recorded depends upon whether it is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive losses are reclassified as earnings in the periods during which earnings are affected by the hedged item. The adoption of these new standards did not have a material effect on net earnings (less than $1 million) or accumulated other comprehensive losses (less than $1 million). During the quarter ended March 31, 2001, accumulated other comprehensive losses increased by $5 million due to hedging transactions, offset by $5 million reclassified from accumulated other comprehensive losses to the combined statement of earnings.

The Emerging Issues Task Force has issued pronouncements addressing the recognition, measurement and statement of earnings classification for certain sales incentives. These pronouncements will be effective in the first quarter of 2002. As a result, certain items previously included in marketing, administration and research costs on our combined statements of earnings will be recorded as reductions of operating revenue. Upon adoption, we will reclassify prior period amounts to conform to the new requirements. Due to anticipated additional consideration of this pronouncement by the EITF, we are currently unable to quantify the impact of adoption. We presently expect that adoption and subsequent application of this pronouncement will not have a material effect on our financial position or results of operations. The EITF also issued a pronouncement addressing the statement of earnings classification of shipping and handling costs billed to vendors. This pronouncement was effective for the fourth quarter of 2000, but did not have an impact on our combined financial statements.

In the first quarter of 2001, the Financial Accounting Standards Board issued an Exposure Draft related to business combinations. If the final rules are adopted as proposed, as of January 1, 2002, we will no longer be required to amortize our goodwill as a charge to earnings. In addition, we will be required to periodically review our goodwill for potential impairment. If an impairment is found to exist, a charge will be taken against earnings in our combined statement of earnings. We cannot currently determine the amount of an impairment charge, if any, that would be recorded upon adoption.

BUSINESS

Overview

We are the largest branded food and beverage company headquartered in the United States and the second largest in the world based on 2000 pro forma revenue. We generated 2000 pro forma revenue of $34.7 billion and 2000 pro forma earnings before interest, income taxes, depreciation and amortization of $6.3 billion. Our brands are sold in more than 140 countries and, according to A.C. Nielsen, are enjoyed in 99.6% of the households in the United States. Consumers of all ages around the world enjoy our brands, whether at home or away from home, across the entire spectrum of food and beverage occasions: breakfast, lunch, dinner and snacks.

We have a superior brand portfolio created and supported through dynamic product innovation, worldclass marketing, experienced management, global scale and strategic acquisitions. Our portfolio includes 61 brands with 2000 revenue over $100 million, accounting for 75% of our 2000 pro forma revenue. Seven of our brands, shown below, had 2000 revenue over $1 billion, accounting for 40% of our 2000 pro forma revenue.

		2000 Pro Forma Revenue (in millions)
[LOGO OF KRAFT]	. The #1 cheese brand in the world, as well as our best known brand for salad and spoonable dressings, packaged dinners, barbecue sauce and other products	$4,302
[LOGO OF NABISCO]	. The umbrella brand for the #1 cookie and cracker business in the world, including nine of our $100 million brands	3,547
[LOGO OF OSCAR MAYER]	. The #1 processed meats brand in the United States	1,366
[LOGO OF POST]	. The #3 brand of ready-to-eat cereals in the United States	1,352
[LOGO OF MAXWELL HOUSE]	. One of the leading coffee brands in the world	1,111
[LOGO OF PHILADELPHIA]	. The #1 cream cheese brand in the world	1,068
[LOGO OF JACOBS]	. The #1 roast and ground coffee brand in Western Europe	1,043

Our other brands with 2000 revenue exceeding $100 million include many additional household favorites, such as:

- Carte Noire--the #1 coffee brand in France;
- Gevalia--the #1 coffee brand in Scandinavia;
- Jell-O--the #1 dry packaged and refrigerated ready-to-eat gelatins and puddings brand in the United States;
- Lacta--the #1 chocolate confectionery brand in Brazil;
- Lunchables--the #1 lunch combinations brand in the United States and Europe;
- Planters--the #1 brand in snack nuts worldwide; and
- Tang--the #1 brand in powdered soft drinks worldwide.

We hold the #1 global share position in eleven product categories. In the United States, based on dollar shares, we hold the #1 share position in 23 of our 25 most profitable categories or, based on volume or equivalent unit shares, in 21 of these 25 categories. In addition, based on volume or equivalent unit shares, we hold the #1 share position in 21 of our 25 most profitable international country categories. We strive to be the category leader in all of our principal markets. Category leaders often achieve higher margins than other category participants, due to the benefits of scale, consumer loyalty and retail customer emphasis that are frequently associated with category leadership.

We concentrate our product innovation, marketing, management and investment efforts on our $100 million brands and selected other brands that enjoy strong regional recognition. We support these core brands with a disciplined program of investment in new product development and worldclass marketing to generate increased revenue growth and profitability. We combine this brand support with our global infrastructure and our knowledge of local consumer tastes and preferences to maintain or achieve leading category positions in the regions in which we operate.

We believe our ability to execute brand-building and growth-oriented marketing and sales strategies is among the best in the global food and beverage industry. We are one of the largest food and beverage advertisers in the world, with 2000 pro forma advertising expenditures exceeding $1.4 billion. Our advertising has won numerous awards around the world for its originality and effectiveness. Our execution with the retail trade is also extremely strong. In the 2000 Cannondale Associates PoweRanking(TM) survey of United States retailers, we ranked #1 among all consumer packaged goods companies as offering the "Best combination of growth and profitability" to retailers. We also ranked #1 among all food and beverage companies in the "Best of the Best" composite ranking and in every surveyed category, including "Consumer brands most important to retailers"; "Best sales force/customer teams"; and "Most innovative marketing programs."

We conduct our global food business through two units. Kraft Foods North America operates in the United States, Canada and Mexico and accounted for $25.3 billion, or 73%, of our 2000 pro forma revenue. Kraft Foods International has operations in 63 countries and accounted for $9.4 billion, or 27%, of our 2000 pro forma revenue. Kraft Foods International had 2000 pro forma revenue of nearly $2 billion in Germany and significant scale in 11 other countries with 2000 pro forma revenue exceeding $200 million in each country. These two units participate in five core consumer sectors: snacks, beverages, cheese, grocery and convenient meals. We coordinate our global activities and share best practices through worldwide councils. We also participate in three international ventures that are strong players in their local markets: United Biscuits for biscuits in Europe; Ajinomoto General Foods for coffee in Japan; and Dong Suh Foods for coffee and cereal in Korea.

Underlying Combined Results

The following table sets forth underlying combined results of operations for Kraft. Underlying results exclude the results of divested businesses, gains (losses) on sales of businesses, the estimated shift of sales attributable to the century date change and the effects of asset writedowns and employee separation programs associated with the integration of our businesses:

	Year Ended December 31,						Compound Annual Growth Rate
	1996	1997	1998	1999	2000	Pro Forma 2000(1)	1996-2000(2)
	(dollars and pounds in millions)						
Volume (in pounds)......	11,816	12,258	12,479	12,625	13,142	17,465	2.7%
Operating revenue.......	$26,145	$26,640	$26,764	$26,348	$26,488	$34,493	0.3
Operating companies income.................	3,596	3,911	4,108	4,308	4,620	5,620	6.5
Operating companies income margin..........	13.8%	14.7%	15.3%	16.4%	17.4%	16.3%	+3.6pp

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(1) Includes Nabisco as if we had acquired it on January 1, 2000.
(2) Represents compound annual growth rate from 1996 to 2000, excluding pro forma data, except for operating companies income margin, which represents absolute change in percentage points over the 1996-2000 period, excluding pro forma data.

Kraft Foods North America Underlying Combined Results

The following table sets forth underlying combined results of operations for Kraft Foods North America.

	Year Ended December 31,						Compound Annual Growth Rate
	1996	1997	1998	1999	2000	Pro Forma 2000(1)	1996-2000(2)
	(dollars and pounds in millions)						
Volume (in pounds)......	8,400	8,740	9,035	9,183	9,534	12,653	3.2%
Operating revenue.......	$16,237	$17,038	$17,611	$17,801	$18,522	$25,331	3.3
Operating companies income.................	2,592	2,905	3,121	3,312	3,570	4,478	8.3
Operating companies income margin..........	16.0%	17.1%	17.7%	18.6%	19.3%	17.7%	+3.3pp

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(1) Includes Nabisco as if we had acquired it on January 1, 2000.
(2) Represents compound annual growth rate from 1996 to 2000, excluding pro forma data, except for operating companies income margin, which represents absolute change in percentage points over the 1996-2000 period, excluding pro forma data.

Since 1996, Kraft Foods North America's underlying volume increased at a compound annual growth rate of 3.2%, which is nearly three times the compound annual growth rate of North America's population during the same period.

The addition of Nabisco would have increased Kraft Foods North America's 2000 underlying volume by 32.7% and underlying operating companies income by 25.4%. Pro forma results are not necessarily indicative of what would have actually occurred if the acquisition had been consummated at the beginning of 2000, nor are they necessarily indicative of our future operating results.

Kraft Foods International Underlying Combined Results

The following table sets forth underlying combined results of operations for Kraft Foods International.

	Year Ended December 31,						Compound Annual Growth Rate
	1996	1997	1998	1999	2000	Pro Forma 2000(1)	1996-2000(2)
	(dollars and pounds in millions)						
Volume (in pounds)	3,416	3,518	3,444	3,442	3,608	4,812	1.4%
Operating revenue	$9,908	$9,602	$9,153	$8,547	$7,966	$9,162	(5.3)
Operating companies income	1,004	1,006	987	996	1,050	1,142	1.1
Operating companies income margin	10.1%	10.5%	10.8%	11.7%	13.2%	12.5%	+3.1pp

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(1) Includes Nabisco as if we had acquired it on January 1, 2000.
(2) Represents compound annual growth rate from 1996 to 2000, excluding pro forma data, except for operating companies income margin, which represents absolute change in percentage points over the 1996-2000 period, excluding pro forma data.

Kraft Foods International's 5.3% compound annual decrease in underlying operating revenue from 1996 to 2000 was due primarily to the impact of unfavorable currency exchange rates of $2.6 billion. From 1996 to 2000, we took steps to reduce costs and streamline our portfolio. These steps contributed to strong performance in 2000 with underlying volume up 4.8% and underlying operating companies income up 5.4% from 1999, and underlying operating companies income margin up 3.1 percentage points since 1996.

The addition of Nabisco would have increased Kraft Foods International's 2000 underlying volume by 33.4% and underlying operating companies income by 8.8%. Pro forma results are not necessarily indicative of what would have actually occurred if the acquisition had been consummated at the beginning of 2000, nor are they necessarily indicative of our future operating results.

Our History

Our company was created through a series of acquisitions beginning with Philip Morris' acquisitions of General Foods Corporation for $5.6 billion in 1985 and Kraft, Inc. for $12.9 billion in 1988. In 1989, Philip Morris merged General Foods and Kraft to form our company. We acquired Jacobs Suchard, a leading European coffee and confectionery company, for $4.2 billion in 1990, and Freia Marabou, the leading confectionery company in Scandinavia, for $1.3 billion in 1993.

In December 2000, to expand our global presence and to strengthen our position in the growing snacks consumer sector, we acquired Nabisco Holdings Corp. at an aggregate cost of approximately $19.2 billion, which includes the assumption of approximately $4.0 billion of existing Nabisco debt.

Since 1990, we have also acquired more than 50 other domestic and international food businesses, including the United States operations of Capri Sun, the rapidly growing leader in the United States aseptic juice drinks category; Terry's Group, a leader in the chocolate gifting category in the United Kingdom; Nabob, a leading premium coffee producer in Canada; Lacta, the #1 chocolate confectionery business in Brazil; Balance Bar, our entry into the expanding energy and nutrition bar category in the United States; and Boca Burger, our entry into the emerging soy-based meat alternatives category in the United States. We were among the first to invest in the newly opened markets in Central and Eastern Europe, making ten acquisitions between 1992 and 1995.

Our Competitive Strengths

Our Superior Brand Portfolio

Our collection of brands represents one of the strongest portfolios in the food and beverage industry. Our brands enjoy consumer loyalty and trust and offer our retail customers a strong combination of growth and profitability. Because consumers desire our brands, we are well positioned to profitably maintain and increase our global category leadership positions. Our established brands also provide a powerful platform for growth driven by new products, product line extensions and geographic expansion.

Our portfolio is led by two standout brands, Kraft and Nabisco. For millions of consumers, the name Kraft is synonymous with quality. This association began with J. L. Kraft's invention of process cheese during World War I. Since that time, we have carefully nurtured the Kraft brand, extending it to new products, categories and geographies, strongly supported by worldclass advertising and promotion.

Our recent acquisition of Nabisco supplemented our strong brand portfolio with 15 brands having 2000 revenue exceeding $100 million each, nine of which fall under the Nabisco umbrella brand. Nabisco, with roots to 1898, has evolved into a global brand representing a collection of biscuit brands ranking #1 in the world. This collection encompasses eight of the top twelve selling cookie and cracker brands in the United States, including Oreo, Chips Ahoy!, Newtons, Ritz and Triscuit. Nabisco's leading non-biscuit brands include Planters nuts, Life Savers candies, A.1. steak sauce and Grey Poupon mustard.

Many of our other core brands have also been built through years, and in many cases decades, of significant investment in advertising and promotion. The resulting brand equity of our portfolio has been critical to our continued growth in the face of a consolidating retail environment and the expansion of private label products. Since 1996, in grocery stores and supercenters in the United States, we have gained an average of 0.9 share points, based on dollar shares, in our 20 most profitable United States categories, excluding five of our recently acquired Nabisco categories. During this period, in these same categories, private label products gained an average of 0.9 share points and branded competitors lost an average of 1.8 share points.

In the United States, based on dollar shares, we hold the #1 share position in 23 of our 25 most profitable categories or, based on volume or equivalent unit shares, in 21 of these 25 categories. Products within these top 25 categories, shown below, generated more than 70% of Kraft Foods North America's 2000 pro forma revenue.

Kraft Foods North America
Top 25 U.S. Categories for 2000

Consumer Sector/Category	Dollar/ Volume Share Rank	Major Brands	Size of U.S. Category (Dollars in Millions)	Our U.S. Category Dollar Share (%)	Our U.S. Category Volume Share (%)
Snacks					
Cookies	#1	Oreo, Chips Ahoy!	$4,114	40.9%	35.9%
Crackers	#1	Ritz, Premium	3,210	50.7	45.4
Ready-to-Eat Refrigerated Desserts	#1	Jell-O	542	60.9	57.6
Snack Nuts	#1	Planters	1,193	46.8	45.5
Sugar Confectionery	#1/#2	Life Savers, Altoids	2,356	19.2	16.7
Beverages					
Aseptic Juice Drinks	#1	Capri Sun, Tang	1,071	41.5	46.0
Coffee	#1/#2	Maxwell House	3,517	34.3	31.9
Powdered Soft Drinks	#1	Kool-Aid, Crystal Light	756	84.7	81.0
Cheese					
Cream Cheese	#1	Philadelphia	822	67.6	61.9
Grated Cheese	#1	Kraft	392	55.4	49.8
Natural Cheese	#1	Kraft	4,169	28.2	24.5
Process Cheese Loaves	#1	Velveeta	391	87.7	84.5
Process Cheese Slices	#1	Kraft	1,938	55.2	46.8
Grocery					
Dry Packaged Desserts	#1	Jell-O	507	82.8	79.7
Frozen Whipped Toppings	#1	Cool Whip	368	72.7	67.8
Ready-to-Eat Cereals	#3	Post	7,515	16.5	16.8
Salad Dressings	#1	Kraft	1,788	31.9	32.9
Spoonable Dressings	#1	Kraft, Miracle Whip	1,155	46.4	44.8
Steak Sauces	#1	A.1.	219	63.9	56.3
Convenient Meals					
Bacon	#1	Oscar Mayer, Louis Rich	1,977	19.6	14.3
Cold Cuts	#1	Oscar Mayer, Louis Rich	3,241	31.7	30.8
Frozen Pizza	#1	DiGiorno, Tombstone	2,597	37.5	37.5
Hot Dogs	#2	Oscar Mayer, Louis Rich	1,726	21.3	17.2
Lunch Combinations	#1	Lunchables	778	83.6	85.3
Macaroni & Cheese Dinners	#1	Kraft	766	82.6	71.4

Note: U.S. category and share data are supplied by A.C. Nielsen and Information Resources Inc., and reflect grocery stores, supercenters and mass merchandisers; share data do not include all retail outlets.

We hold the #1 share position, based on volume or equivalent unit shares, in 21 of our 25 most profitable international country categories. Products within these categories, shown below, generated 46% of Kraft Foods International's 2000 pro forma revenue.

Kraft Foods International
Top 25 Country Categories for 2000

Consumer Sector/Category	Country	Share Rank	Major Brands	Size of Category (U.S. Dollars in Millions)	Our Category Volume Share (%)
Snacks					
Biscuits	Argentina	#1	Terrabusi	$ 905	30.2%
Biscuits	Venezuela	#1	Club Social	298	45.9
Chocolate	Austria	#1	Milka	452	47.7
Chocolate	Belgium	#1	Cote d'Or	860	31.0
Chocolate	France	#2	Milka, Cote d'Or	2,080	19.1
Chocolate	Germany	#3	Milka	4,955	11.3
Chocolate	Norway	#1	Freia	431	53.6
Chocolate	Sweden	#1	Marabou	589	51.0
Salty Snacks	Scandinavia/Finland	#1	Estrella	893	36.5
Beverages					
Coffee	France	#1	Carte Noire	1,696	42.3
Coffee	Germany	#1	Jacobs	3,416	24.8
Coffee	Poland	#2	Jacobs	656	17.0
Coffee	Sweden	#1	Gevalia	526	42.1
Coffee	United Kingdom	#2	Kenco, Maxwell House	1,217	21.7
Powdered Soft Drinks	Argentina	#1	Tang, Clight	207	75.1
Powdered Soft Drinks	Brazil	#1	Tang, Clight	574	50.4
Cheese					
Cream Cheese	Germany	#1	Philadelphia	477	23.0
Cream Cheese	Italy	#1	Philadelphia	221	62.5
Cream Cheese	United Kingdom	#1	Philadelphia	110	60.2
Process Cheese	Australia	#1	Kraft Singles	137	48.5
Process Cheese	Italy	#1	Kraft Sottilette	374	55.5
Process Cheese	United Kingdom	#1	Kraft Dairylea	308	43.8
Grocery					
Spoonable Dressings	Germany	#1	Miracel Whip	145	33.8
Yeast Spreads	Australia	#1	Vegemite	48	88.0
Convenient Meals					
Canned Beef	Italy	#1	Simmenthal	163	60.6

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Note: International category data are supplied by Euromonitor International, where available, and A.C. Nielsen or Information Resources Inc.; international share data are supplied by A.C. Nielsen, except for canned beef, which are supplied by Information Resources Inc., and German and Swedish coffee, which are supplied by GfK; share data do not include all retail outlets.

Innovative Products Supported by Worldclass Marketing

We maintain strong and vibrant brands and nurture their growth by developing new and innovative products and line extensions that appeal to consumer preferences. We also introduce into new geographic markets products that have been successful in other markets. We support all of these efforts with worldclass marketing. As a result, new products introduced by Kraft and Nabisco from 1996 to 2000 contributed over $4 billion to 2000 pro forma revenue, and new products introduced from 1998 to 2000 contributed nearly $3 billion to 2000 pro forma revenue.

Innovative Products with Consumer Appeal. Our ability to anticipate the changing tastes, eating patterns and dietary habits of consumers and to create new products that appeal to their preferences is a key factor to our success and growth. In 2000, on a pro forma basis, we spent $364 million on research and development. Since 1981, we have received more food-related United States patents than any other food and beverage company. We focus our innovation efforts on product attributes that are most valued by our consumers, including taste, convenience and nutrition. This has led to numerous brand extensions, both within a category by adding variety in flavors, sizes and forms, and across categories by extending our brands into new product categories. Examples of our successful innovations include:

Product	Innovation	Results
. Oscar Mayer Lunchables ready-to-eat lunch combinations	. created new category of conveniently packaged meals, snacks, beverages and desserts . extended to more than 50 varieties, including Pizza, All Star Burgers and Hot Dogs and Mega Pack Lunchables . recently extended from the United States to Europe	. increased revenue from approximately $60 million in the U.S. in 1989 to over $600 million worldwide in 2000, a compound annual growth rate of nearly 25% . we hold an 83.6% dollar share of the U.S. category
. DiGiorno Rising Crust frozen pizza	. modified atmosphere packaging and self-rising crust formula permitting frozen pizza for the first time to rival the quality of take-out or delivery pizza . line extensions into a variety of sizes and toppings including half-and-half combinations . fast adapted for the Canadian market	. 2000 North America revenue, including Delissio, exceeded $400 million, with a compound annual growth rate since 1996 of over 30% . solidified our position as the leading frozen pizza producer in the U.S. with a 37.5% dollar category share . Delissio became the top selling frozen pizza in Canada in 2000 within six months of its introduction
. Kenco instant coffee, the #2 instant coffee in the United Kingdom, the nation with the second largest consumption of instant coffee in the world	. extended premium line marketed to upscale consumers in the United Kingdom by introducing Kenco Rappor instant coffee to mainstream consumers	. Kenco Rappor rose to a 4.9% volume category share within its first 18 months without adversely affecting the existing line . increased Kenco line's total volume category share to 12.2% in 2000 from 7.6% in 1998

Worldclass Marketing. We use worldclass marketing and advertising to communicate the benefits of our products to consumers and to build brand equity, thus driving increased demand for our products. Our 2000 pro forma advertising expenditures exceeded $1.4 billion. We invest more in advertising in the United States than any other food and beverage company, and we are one of the largest food and beverage advertisers in the world. During the past five years, the New York American Marketing Association has presented us with 21 Effie awards, which recognize advertising that is effective in growing brands.

We support certain brands through globally integrated marketing activities. Philadelphia cream cheese, for example, achieved worldwide revenue over $1.0 billion in 2000, including more than $350 million from sales outside North America. Volume for Philadelphia outside North America has grown at a 5.4% compound annual rate since 1996. We are supporting Philadelphia with a global advertising campaign adapted to local cultures in each market. We have also harmonized the product's packaging worldwide and have introduced several new products aligned with consumer trends, including Philadelphia snack bars for snacking, Philadelphia Portions for single serve convenience and Philadelphia Creamo, a gourmet cream cheese.

As another example, we support our Milka chocolates with a globally integrated marketing program that links images of snow capped Alpine peaks and cows bearing the Milka lilac color. We created an integrated pan-European promotional, public relations and point of sale campaign revolving around our sponsorship of World Cup skiing. We use banners, air balloons, inflatable cows and giveaway skis, all bearing the Milka logo and colors. We coordinated these marketing efforts with our product innovation efforts to extend the Milka line into several variations, including seasonal gift products such as Milka chocolate Easter eggs and Santa Clauses. From its key German market, we have expanded Milka into more than 20 countries across Europe and Latin America. Through these efforts, we increased volume for Milka outside Germany at a compound annual growth rate of 5.2% since 1996. Worldwide revenue for Milka in 2000 was more than $850 million.

Our Successful Portfolio Management

We have demonstrated our ability to strengthen our portfolio through acquisitions, brand licensing arrangements and divestitures. This aggressive program has been a key contributor to our growth, higher profitability and enhanced financial returns. For the period from 1990 to 2000, we purchased 58 businesses, excluding Nabisco, for $8.6 billion and divested 55 businesses for proceeds of $5.8 billion. As a result of successfully managing our portfolio as well as our ongoing productivity programs and our product innovations, our reported operating companies income margin grew from 10.2% in 1990 to 17.9% in 2000.

We take a disciplined approach to acquisitions, evaluating candidates based on four key criteria:

- the candidate should place us in new or existing growth categories;

- the acquisition should add valuable trademarks that we can develop further;

- the business should improve our scale and market position; and

- the acquisition should generate attractive financial returns and be quickly accretive to cash earnings.

We have successfully integrated both our large and small acquisitions, achieving strategic objectives and generating significant financial and operational benefits. For example, in our integration of General Foods and Kraft during the 1990s, we streamlined and unified our sales forces and administration personnel, consolidated our manufacturing and distribution infrastructures and leveraged our increased scale to produce significant productivity savings and increased margins. As a result of these and other actions, Kraft Foods North America's revenue per employee increased approximately 75% between 1991 and 2000. In addition, Kraft Foods International combined and streamlined multiple sales forces, resulting in one retail sales force per nation for most of Europe. We are applying the skills derived from these experiences to the ongoing integration of Nabisco.

In addition to acquiring brands, we have further strengthened our portfolio by obtaining the right to use selected brands through licenses from companies in restaurant or food related businesses that view us as the partner of choice. In 1998, we acquired the rights to sell, market and distribute Starbucks bagged coffee to United States grocery stores. Our 2000 revenue from this business helped us achieve the #1 position in the United States coffee category based on dollar share.

We have aggressively managed our portfolio by divesting underperforming businesses to concentrate on our core brands. We evaluate divestiture candidates based on three key criteria:

- underperformance relative to the rest of our portfolio in terms of growth or profitability;
- diminished prospects for growth or profitability; and
- the potential to obtain an attractive sale price.

Since 1990, we divested businesses that had an aggregate of $9.0 billion of revenue, but only $0.5 billion of operating companies income, in the year before sale. These divestitures included our food service distribution business, Entenmann's baked goods, Log Cabin syrups, the Breyers, Sealtest and Kibon ice cream businesses, Lender's bagels and Birds Eye frozen vegetables.

Our Global Scale Drives Customer Service, Productivity and Geographic Expansion

Our global scale enables us to be more efficient and effective in serving our customers, while reducing costs, improving productivity and sustaining our high margins. We can better serve our customers through our large and effective direct-selling sales forces and strengthen customer loyalty with our diverse and popular brand portfolio, customized programs and supply chain solutions. Our scale also enables us to manufacture and distribute our products more efficiently and to expand the geographic reach of our brands.

Customer Service. Globally, we employ more than 20,000 salespersons across 60 countries. We use our global scale to strengthen our relationships with our retail customers, which is essential in the face of ongoing global retailer consolidation. As a leading global manufacturer, we help to improve retailers' profitability by providing them with many leading brands, efficiently delivering products to their warehouses and stores, including through direct-store-delivery systems, and helping them manage their inventory. In addition, our significant trade spending helps generate strong retailer support of our brands, including retailer participation in promotions, advertising and in-store displays.

Productivity. Our scale contributes to improved productivity, an area that has been a key contributor to our financial performance. We define productivity as a measure of the actions we have taken to reduce costs in purchasing, conversion, distribution and transportation. Our target is to realize productivity savings of 3.5% of cost of sales each year, adjusted for the exclusion of excise taxes on coffee. Excluding Nabisco, we averaged more than $450 million per year in productivity savings over the last five years and realized savings of 3.4% of cost of sales in each of the last two years. We are among the world's largest buyers of food-related raw and packaging materials, spending approximately $11.6 billion in 2000 on a pro forma basis. Our purchasing scale and our experienced purchasing staff enable us to negotiate attractive prices and terms for necessary goods and services.

Geographic Expansion. We use our global scale and infrastructure and our worldwide councils and local consumer insights to quickly adapt products popular in one market for introduction into other markets. For example, we successfully adapted the United States versions of Lunchables lunch combinations and Handi-Snacks two-compartment snacks for introduction in Europe under the Dairylea Lunchables, Kraft Lunchables, Kraft Suzanna Snacks and Dairylea Dunkers trademarks. These new lines of lunch combinations and wholesome snacks generated approximately $95 million in revenue in 2000.

We have achieved strong growth in developing markets, including Central and Eastern Europe, Africa, the Middle East, Latin America and Asia Pacific, where underlying volume was up 11.9% from 1999 to 2000. This growth was fueled by the introduction of a number of our Western European brands, including confectionery, salty snacks and coffee products in Central and Eastern Europe and the Middle East. We also registered strong growth in Latin America, with underlying 2000 volume up 10.6%, and in Asia Pacific, with underlying 2000 volume up 12.7%, in each case from 1999.

Our expansion of Tang powdered soft drinks from its base in the United States to numerous developing markets demonstrates our ability to expand the geographic reach of our brands. Between 1996 and 2000, volume for Tang outside North America grew at a compound annual rate of 8.9%. Revenue for Tang outside North America was nearly $300 million in 2000.

We have also found opportunities to introduce selected international brands in North America. In 1995, we launched Altoids mints in the United States where it achieved 2000 revenue exceeding $150 million, due in part to the successful Altoids Wintergreen and Cinnamon line extensions. Altoids Cinnamon sales exceeded the sales of all other competitors in the United States intense mints category in 2000.

Our Management's Proven Ability to Execute

We have an experienced management team committed to achieving our goals. This team emphasizes excellence in execution in every facet of our business. This emphasis, particularly in the areas of customer relations, productivity and employee excellence, has helped to drive our superior performance.

Our top 25 executives have an average of 20 years of industry experience. More than one-half have worked outside their home country to gain global experience. Our worldwide councils, together with our emphasis on moving employees among our various operating entities, provide opportunities for our executives to learn best practices generated across all of our geographic regions.

Kraft is renowned not only for the quality of its senior management team but also for its promotion of excellence at all levels of the organization. We make significant investments in employee development through extensive training. According to The Wall Street Journal: "In the food world, Kraft is considered the Harvard of career management." Our leadership pipeline is built by identifying talented individuals early and accelerating their advancement through challenging and broadening assignments. Employee excellence is recognized through a compensation system that rewards performance and leadership potential throughout all managerial levels.

Our strong collaborative relationships with our retail customers demonstrate our strength and execution capabilities. Our retail customers have recognized our strengths and abilities in the 2000 annual PoweRanking(TM) survey of retailers conducted by Cannondale Associates, a sales and marketing consulting firm that surveys the United States' leading retailers to produce a benchmark rating of the performance of food, beverage, household and personal care products manufacturers. Among all consumer packaged goods companies, we were ranked #1 in the category of "Best combination of growth and profitability" to retailers, and tied for #1 in the "Best sales force/customer teams" category. We also ranked #1 among all food and beverage companies in the "Best of the Best" composite ranking and in every surveyed category, as follows:

Strategic Rankings:

- offers retailers the best combination of growth and profitability;
- clearest company strategy; and
- consumer brands most important to retailers.

Business Fundamental Rankings:

- best sales force/customer teams;
- most innovative marketing programs;
- most helpful consumer information;
- best supply chain management; and
- best category management.

A similar 1999 survey of retailers in Germany, our most significant overseas market, also ranked our sales force as the best in the food and beverage industry.

Strategies

We intend to continue executing our proven growth and operating strategies to fulfill our mission to be the undisputed leader of the global food and beverage industry and to achieve our financial targets. These strategies build on our core strengths of brands, innovation, marketing, portfolio management and execution. We achieve significant benefits of scale by applying our strategies across our entire global organization.

Accelerate Growth of Core Brands

We have powerful brands in a wide range of attractive categories and geographies in which we invest most of our marketing, innovation, sales and distribution resources. We strive to grow these brands by:

- focusing on the growing consumer sectors of snacks, beverages and convenient meals;
- addressing consumer health and wellness needs;
- expanding our presence in faster growing distribution channels; and
- targeting attractive demographic and economic segments in each market.

In each of these areas, we use our extensive knowledge of consumer tastes and preferences to address changing consumer needs through new products, line extensions and selective acquisitions. We support these actions with superior marketing, sales and distribution execution.

Focus on Growing Consumer Sectors. Although we target growth opportunities across each of our five core consumer sectors, we have identified in particular the snacks, beverages and convenient meals consumer sectors as having significant global growth potential. Within these three growing consumer sectors, we concentrate on and have strengths in the following ten categories:

- Snacks--cookies, crackers, confectionery and salty snacks;
- Beverages--coffee, powdered soft drinks and aseptic juice drinks; and
- Convenient Meals--lunch combinations, frozen pizza and packaged dinners.

Approximately 65% of our 2000 pro forma revenue was attributable to products in these three growing consumer sectors.

Our strong execution of this strategy has produced many successes, including:

- Snacks--1996-2000 United States revenue from Planters snack nuts grew over 10% annually from approximately $500 million to approximately $750 million;
- Beverages--1996-2000 North America revenue for Capri Sun aseptic juice drinks grew nearly 20% annually from approximately $240 million to nearly $500 million; and
- Convenient Meals--1996-2000 North America revenue for DiGiorno and Delissio Rising Crust pizza grew over 30% annually from approximately $125 million to over $400 million.

In addition, we plan to maintain the vibrancy of our mature brands by extending them into higher growth categories, as we have done with the evolution of the Jell-O brand from a basic powdered product requiring preparation to a premium line of refrigerated ready-to-eat gelatins, puddings and other desserts. In 2000, approximately 40% of Jell-O revenue was from these ready-to-eat products. In 1999, we updated our traditional powdered soft drink, Tang, with a ready-to-drink foil pouch, which achieved over $80 million in United States revenue in 2000. Also, we successfully extended our leading Philadelphia brand to create an entirely new category, cheesecake snack bars, by introducing Philadelphia snack bars.

Address Health and Wellness Needs. Consumers in both developed and developing markets are increasingly looking for foods with positive health, energy or nutritional attributes. Health and wellness foods include those that are fat free or sugar free, reduced in fat, calorie or sugar content, or nutritionally fortified versions of existing products. We have aggressively introduced or acquired a broad portfolio of products with these attributes. Examples include calcium fortified Kraft 2% Milk Cheese Singles, vitamin enriched Tang aseptic juice drinks and powdered soft drinks, Boca Burger soy-based meat alternatives, reduced fat Philadelphia cream cheese and the Balance Bar line of energy bars. Our products with health and wellness attributes generated more than $2 billion in 2000 revenue. Our research and development efforts continue to explore opportunities in calcium and vitamin enrichment, soy, low-calorie sweeteners and other health and wellness areas.

Expand Representation in Faster Growing Distribution Channels. We have recently invested significant sales, distribution and innovation resources in improving our penetration of alternate distribution channels, including supercenters, convenience stores, mass merchandisers, drug stores and club stores. In the United States, our sales volume through these distribution channels has increased at a compound annual rate of 24% since 1996. We view this as a significant opportunity to grow our core brands in these channels because our share of total food and beverage sales in these channels is lower than in the grocery channel. In North America, we have created a National Channels team to target the needs of alternate formats. This team is developing product and packaging innovations, including jumbo sizes for club stores and single serve sizes for convenience stores, and pricing and promotion strategies that appeal to each channel. Our acquisition of Nabisco, which has a direct-store-delivery system for cookies and crackers and a sales organization for confectionery products targeted to small independent outlets, increases our ability to promote and ship directly to customers within these alternate channels. Nabisco's existing relationships with customers in these alternate channels provide us an opportunity to broaden the distribution of Kraft confectionery products. Nabisco's experience will help shape future product development tailored for customers in alternate distribution channels.

In Europe, we have created an Away-from-Home team focused on our core coffee category to target the vending, office and other food service channels that account for almost one-quarter of European coffee sales. As a result, our Kenco brand appears on nearly 37,000 office vending machines throughout the United Kingdom; our Jacobs brand appears on nearly 3,000 single cup machines for small offices and cafeterias throughout Germany; our Gevalia brand appears in numerous coffee shops and cafes throughout Scandinavia; and our Carte Noire brand appears on cups, menus and point-of-sale material in McDonald's restaurants in France.

Target Attractive Demographic and Economic Segments. We develop or geographically expand products to capitalize on changing demographic and economic trends. In the United States, we intend to increase our sales to African-American and Hispanic consumers, two population groups that, in the aggregate, are growing almost five times faster than the rest of the United States population. Our strategies here include improving sales force coverage of distribution channels that serve these consumers, increasing marketing spending directed toward these consumers and developing new products appealing to these consumers. In developing markets, we introduce premium products that fill consumer needs as purchasing power increases. For example, we have expanded the Milka chocolate brand to Central and Eastern Europe and Latin America as a premium price confectionery product that complements our current portfolio of local mainstream brands.

Drive Global Category Leadership

Our strategy is to attain and expand the leading position in our core categories across our key markets and to expand in developing markets. As a category leader with the benefits of scale, consumer loyalty and retail customer emphasis, we are positioned to capture a significant share of a category's growth and profit, generating additional resources to reinvest in marketing and innovation, and enabling us to sustain ongoing leadership and profitability.

We presently hold the #1 share position in eleven product categories globally.

Global #1 Position		
. Coffee	. Dessert mixes	. Process cheese
. Cookies	. Dry packaged dinners	. Salad dressings
. Crackers	. Lunch combinations	. Snack nuts
. Cream cheese	. Powdered soft drinks	

Approximately 55% of our 2000 pro forma revenue was derived from our global #1 categories. We focus our global resources on sustaining and improving our leadership in these categories. We have worldwide councils covering the principal categories in which we compete in many geographies. These councils cover our biscuits, cheese, coffee, confectionery and refreshment beverages categories. These councils are led by senior managers from around the world in the respective categories, and their task is to transfer best practices, facilitate the fast adapting of products from one region to another, and optimize our worldwide productivity and sourcing efforts. We also have worldwide functional linkages in technology, operations, sales and human resources to ensure that we maximize efficiency and effectiveness in these key areas.

A key element of our strategy is to expand our sales in developing markets in Central and Eastern Europe, Africa, the Middle East, Latin America and Asia Pacific. These developing markets are home to 86% of the world's population. Consumers in these markets account for 18% of the world's disposable income, based on data from Euromonitor International, but only 9% of our 2000 underlying revenue, presenting a significant growth opportunity. We have begun to implement this strategy, and our underlying volume in developing markets grew 11.9% from 1999 to 2000. This growth strategy has four key components. First, we expand geographically by introducing additional snacks, beverages and cheese categories within developing countries where we have an existing presence. Second, we leverage our portfolio by introducing additional brands across the key price segments within categories in markets where we have an existing presence. Third, we enter developing countries in which we have previously not had operations. Finally, we pursue tactical fill-in acquisitions, especially in snacks and beverages, to build upon our existing portfolio in developing markets.

Optimize our Portfolio

We actively manage our business and brand portfolio through acquisitions, licensing arrangements and divestitures to improve the mix of growing, profitable and high-return businesses. Our acquisition and licensing strategies add businesses that are in fast-growing categories, have valuable brands or provide improved scale and market position.

The Nabisco acquisition is the largest and most recent example of our acquisition strategy. Nabisco improved our product mix and will accelerate our growth by increasing our share of the growing global snacks consumer sector. The combination of Nabisco and Kraft offers numerous opportunities for new products, larger scale promotions and expanded distribution. Thus far, we have identified opportunities that we estimate will generate incremental operating companies income from revenue synergies of approximately $50 million by 2003.

We have announced plans to sell Nabisco's Canadian grocery business. We currently plan to sell a number of other Nabisco businesses that do not align strategically with our food and beverage operations.

Maximize Operating Efficiency

We continue to drive excess costs and unproductive assets out of our system, thus reducing our cost of sales and overhead expenditures, while enhancing our earnings and cash flow. At the same time we continue to emphasize product quality and customer service. Our ongoing plan for continuing to achieve our productivity targets includes a number of operational improvements throughout the organization as follows:

- consolidate manufacturing plants;
- consolidate purchasing;
- consolidate sales forces within each country;
- streamline distribution processes;
- adopt advanced manufacturing processes;
- streamline customer communications; and
- expand Internet-based purchasing.

For example, we continue to consolidate and centralize our purchasing function by expanding its scope beyond traditional raw and packaging materials to encompass indirect products and services used by all our plants, offices and divisions. We will support this expansion by implementing Internet-based purchasing systems to reduce our transaction costs while centralizing purchasing responsibility.

We also plan to reduce costs by migrating technical operations advances across borders, optimizing our capacity utilization and consolidating operations on a regional and global basis. We will continue to take advantage of lower cost raw material and production sources within regions covered by free trade agreements. For example, the Association of Southeast Asian Nations pact permitted us to replace our plant in the Philippines with a new plant in Thailand, from which we source Tang powdered soft drinks throughout Southeast Asia. This cost effective measure permitted us to situate our plant near the source of the lowest cost sugar available in the region. To take advantage of the Central Europe Free Trade Agreement, we now source some key confectionery products throughout Central Europe from the Slovak Republic.

We have a proven history of generating cost savings by combining acquired operations with our own, and the acquisition of Nabisco provides significant cost synergy opportunities that we intend to capture. By combining Nabisco's operations with ours, we currently expect to generate annual cost synergies in excess of $400 million in 2002, growing to more than $550 million in 2003. Our statement of earnings charges to obtain these synergies will consist principally of systems integration, employee training and benefit costs, and will aggregate approximately $300 million from 2001 to 2003. Consequently, we expect to achieve net cost synergies of approximately $100 million in 2001, $300 million in 2002 and $475 million in 2003. We estimate that these savings will be derived from:

- more efficient operations and research and development--37% to 40%;
- lower administration costs--37% to 40%;
- more efficient selling organizations and programs--16% to 18%; and
- more efficient marketing--5% to 7%.

Our current estimates are subject to revision as we finalize and implement our integration plans.

Build Employee and Organizational Excellence

The effective execution of our growth strategies relies on experienced and well-trained management and employees at all levels and in all geographies. We will continue to build employee excellence and instill in our personnel the values we believe in: focus, innovation, passion, speed, trust and teamwork. We will also continue to invest in training, development and career management to continuously improve the quality of our management team. Finally, we will continue to align our measurement and reward systems with actions that drive our success in the marketplace and create superior value for our investors. As a result of this offering, we will have an important new management incentive tool, our common stock, that we can use to motivate and reward excellent performance by our key employees and more closely align their interests with those of our shareholders.

Markets and Products

We conduct our business through two units: Kraft Foods North America and Kraft Foods International. Kraft Foods North America manages its operations in the following business segments: Cheese, Meals and Enhancers; Biscuits, Snacks and Confectionery; Beverages, Desserts and Cereals; and Oscar Mayer and Pizza. Kraft Foods International manages its operations by geographic region in two business segments: Europe, Middle East and Africa; and Latin America and Asia Pacific.

Our superior brand portfolio spans five core consumer sectors:

- Snacks--primarily cookies, crackers, salty snacks and confectionery;
- Beverages--primarily coffee, aseptic juice drinks and powdered soft drinks;
- Cheese--primarily natural, process and cream cheeses;
- Grocery--primarily ready-to-eat cereals, enhancers and desserts; and
- Convenient Meals--primarily frozen pizza, packaged dinners, lunch combinations and processed meats.

The following table shows our business segments' participation in these five core consumer sectors.

Segment(1)	2000 Pro Forma Revenue by Consumer Sector: Snacks	Beverages	Cheese	Grocery	Convenient Meals	Total
	(in billions)					
Kraft Foods North America						
Cheese, Meals and Enhancers(2)............	$ 0.5	$0.6	$5.0	$2.6	$1.6	$10.3
Biscuits, Snacks and Confectionery...........	5.9			0.1		6.0
Beverages, Desserts and Cereals.................	0.6	2.8		2.1		5.5
Oscar Mayer and Pizza....					3.5	3.5
Total Kraft Foods North America................	7.0	3.4	5.0	4.8	5.1	25.3
Kraft Foods International						
Europe, Middle East and Africa..................	2.5	2.8	1.0	0.4	0.3	7.0
Latin America and Asia Pacific.................	1.1	0.4	0.3	0.5	0.1	2.4
Total Kraft Foods International..........	3.6	3.2	1.3	0.9	0.4	9.4
Total 2000 pro forma revenue..............	$10.6	$6.6	$6.3	$5.7	$5.5	$34.7
Percentage of total 2000 pro forma revenue(3)......	30.6%	19.0%	18.0%	16.6%	15.8%	100.0%

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(1) The amounts of operating revenue and long-lived assets attributable to each of our geographic regions and the amounts of our operating revenue and operating companies income of each of our segments for each of the last three fiscal years are set forth in Note 11 to our combined financial statements.
(2) Our Cheese, Meals and Enhancers segment includes our United States food service business and our Canada and Mexico businesses, which sell products across all consumer sectors.
(3) Percentages are calculated based upon dollars rounded to millions.

Snacks Consumer Sector

Globally, snacks accounted for $10.6 billion, or 30.6%, of our 2000 pro forma revenue.

North America

Snacks accounted for 28% of Kraft Foods North America's 2000 pro forma revenue. We participate in this consumer sector through our Biscuits, Snacks and Confectionery segment; our Beverages, Desserts and Cereals segment; and our Cheese, Meals and Enhancers segment via our Canada and Mexico businesses and our United States food service business. Our products within this consumer sector are primarily cookies, crackers, snack nuts, ready-to-eat snacks and sugar confectionery, as follows:

Biscuits

. 8 of the top 12 cookie and cracker brands in the United States

. #1 with a 40.9% dollar share of the $4.1 billion U.S. cookies category

--cookie brands include Oreo, Chips Ahoy!, Newtons, Nilla, Nutter Butter, Stella D'Oro and SnackWell's

. #1 with a 50.7% dollar share of the $3.2 billion U.S. crackers category

--cracker brands include Ritz, Premium, Triscuit, Wheat Thins, Cheese Nips, Better Cheddars, Nabisco Honey Maid Grahams and Teddy Grahams

Snacks	. #1 with a 46.8% dollar share of the $1.2 billion U.S. snack nuts category, a share position that is more than ten times greater than the nearest branded competitor, through our Planters brand
	. #1 with a 60.9% dollar share of the $0.5 billion U.S. ready-to-eat refrigerated desserts category through our Jell-O brand
	. another snack brand is Handi-Snacks two-compartment snacks
Confectionery	. #1 with a 19.2% dollar share of the $2.4 billion U.S. sugar confectionery category
	. Life Savers and Creme Savers are the #1 and #2 hard candy brands in the U.S.
	. other brands include Terry's and Toblerone chocolate confectionery products and Altoids and Gummi Savers sugar confectionery products

International

Snacks accounted for 38% of Kraft Foods International's 2000 pro forma revenue.

Europe, Middle East and Africa. Snacks accounted for 36% of our 2000 pro forma revenue in the Europe, Middle East and Africa segment. We participate in this consumer sector primarily in chocolate confectionery and salty snacks, as follows:

Confectionery	. #3 with an 11.1% volume share of the $22.6 billion chocolate confectionery category in Western Europe
	. #1 with a 23.4% volume share of the $3.1 billion chocolate confectionery category in Central and Eastern Europe, excluding Russia
	. brands include Milka, Suchard, Cote d'Or, Marabou, Toblerone, Freia, Terry's, Daim, Figaro, Korona, Poiana, Prince Polo and Siesta
Snacks	. #1 with a 36.5% volume share of the $0.9 billion salty snacks category in Scandinavia and Finland
	. brands are Estrella, Maarud and Lyux

We also have a 26.5% interest in the United Biscuits venture, a leader in the biscuits and snacks categories in Europe. Based on volume, United Biscuits holds the #1 position in biscuits in the United Kingdom, Spain and the Netherlands, and the #2 position in France and Belgium. Its leading brands include McVities, Verkade, Carr's, BN, Go Ahead!, Jaffa and Digestive.

Latin America and Asia Pacific. The geographic regions served by our Latin America and Asia Pacific segment are home to more than one-half of the world's population. These regions present a significant growth opportunity because their populations are growing and increasing their purchasing power and, in Asia Pacific, trade barriers are being eliminated. Through our Nabisco acquisition we significantly increased our 2000 revenue in snacks in Latin America from $274 million to $863 million on a pro forma basis. We also increased our snacks 2000 revenue in Asia Pacific from $56 million to $244 million on a pro forma basis. Snacks accounted for 46% of our 2000 pro forma revenue in the Latin America and Asia Pacific segment. We participate in this consumer sector primarily in cookies, crackers and chocolate confectionery, as follows:

Biscuits	. #2 with a 14.9% volume share of the $5.9 billion biscuit category in Latin America
	. biscuit brands include Oreo, Chips Ahoy!, Ritz, Terrabusi, Canale, Club Social, Cerealitas, Trakinas and Lucky

Confectionery	. #2 with a 22.2% volume share of the $3.0 billion chocolate confectionery category in Latin America
	. brands include Milka, Lacta and Gallito
	. growing sugar confectionery business in Asia Pacific with Sugus and Artic brands

Beverages Consumer Sector

Globally, beverages accounted for $6.6 billion, or 19.0%, of our 2000 pro forma revenue.

North America

Beverages accounted for 13% of Kraft Foods North America's 2000 pro forma revenue. We participate in this consumer sector through our Beverages, Desserts and Cereals segment; and our Cheese, Meals and Enhancers segment via our Canada and Mexico businesses and our United States food service business. Our products within this consumer sector are primarily coffee, aseptic juice drinks and powdered soft drinks, as follows:

Coffee	. #1 with a 34.3% dollar share of the $3.5 billion U.S. coffee category
	. brands include
	-- Maxwell House, our largest brand
	-- General Foods International Coffees, our entry into flavored coffees
	-- Starbucks super premium bagged coffees, sold through grocery stores
	-- Yuban, our premium western U.S. brand
	-- Gevalia super premium coffees, sold through our direct mail coffee business
Aseptic Juice Drinks	. #1 with a 41.5% dollar share of the $1.1 billion U.S. aseptic juice drinks category
	. Capri Sun revenue in the U.S. increased from less than $100 million in 1992, our first full year of operating the business, to nearly $500 million in 2000, a compound annual growth rate exceeding 20%
	. other brands include Tang and Crystal Light
Powdered Soft Drinks	. #1 with an 84.7% dollar share of the $0.8 billion U.S. powdered soft drinks category
	. brands include Kool-Aid, Tang, Crystal Light and Country Time

International

Beverages accounted for 35% of Kraft Foods International's 2000 pro forma revenue.

Europe, Middle East and Africa. Beverages accounted for 40% of our 2000 pro forma revenue in the Europe, Middle East and Africa segment. We participate in this consumer sector primarily in coffee, powdered soft drinks and chocolate drinks, as follows:

Coffee	. #1 with a 21.6% equivalent unit share of the $12.0 billion coffee category in Western Europe
	. #1 with a 42.3% equivalent unit share of the $1.7 billion coffee category in France
	. #1 with a 24.8% equivalent unit share of the $3.4 billion coffee category in Germany

	. #2 with a 21.7% equivalent unit share of the $1.2 billion coffee category in the United Kingdom
	. #1 with a 16.9% equivalent unit share of the $4.2 billion coffee category in Central and Eastern Europe
	. brands include Jacobs, Gevalia, Carte Noire, Jacques Vabre, Kaffee HAG, Grand' Mere, Kenco, Saimaza, Maxwell House and Dadak
Powdered Soft Drinks	. growing in Central and Eastern Europe through the Tang brand
Chocolate Drinks	. brands include Suchard Express, O'Boy, Milka and Kaba

Latin America and Asia Pacific. Beverages accounted for 18% of our 2000 pro forma revenue in the Latin America and Asia Pacific segment. We participate in this consumer sector primarily in powdered soft drinks, as follows:

Powdered Soft Drinks	. #1 with a 48.9% volume share of the $1.3 billion powdered soft drinks category in Latin America
	. brands include Tang, Clight, Kool-Aid, Royal, Verao, Fresh, Frisco, Q-Refres-Ko and Ki-Suco

We own a 50.0% interest in Ajinomoto General Foods, which holds the #2 share position in the Japanese coffee category. Its leading brands include Maxim and Blendy. We also own a 49.0% interest in Dong Suh Foods, which holds the #1 share position in coffee in Korea. Its leading brands include Maxim and Maxwell House.

Cheese Consumer Sector

Globally, cheese products accounted for $6.3 billion, or 18.0%, of our 2000 pro forma revenue.

North America

We participate in this consumer sector entirely through our Cheese, Meals and Enhancers segment. Cheese products accounted for 20% of Kraft Foods North America's 2000 pro forma revenue. We are the industry leader with more than a 43% dollar share of the United States cheese consumer sector:

. #1 with a 28.2% dollar share of the $4.2 billion U.S. natural cheese category, primarily through the Kraft and Cracker Barrel brands

. #1 with a 67.6% dollar share of the $0.8 billion U.S. cream cheese category through the Philadelphia brand

. #1 with a 55.2% dollar share of the $1.9 billion U.S. process cheese slices category, primarily through the Kraft brand

. #1 with an 87.7% dollar share of the $0.4 billion U.S. process cheese loaves category through the Velveeta brand

. #1 with a 55.4% dollar share of the $0.4 billion U.S. grated cheese category, primarily through the Kraft brand

. #1 U.S. dollar share positions in the process cheese sauces, aerosol cheese spreads, cottage cheese and sour cream categories; brands include:

-- Cheez Whiz process cheese sauce

-- Easy Cheese aerosol cheese spread

-- Breakstone's and Knudsen cottage cheese and sour cream

International

Cheese products accounted for 13% of Kraft Foods International's 2000 pro forma revenue.

Europe, Middle East and Africa. Cheese products accounted for 14% of our 2000 pro forma revenue in the Europe, Middle East and Africa segment. We participate in this consumer sector as follows:

- Philadelphia is the #1 cream cheese brand in
  - Germany, with a 23.0% volume share of the $0.5 billion category
  - Italy, with a 62.5% volume share of the $0.2 billion category
  - the United Kingdom, with a 60.2% share of the $0.1 billion category
- #1 with a 55.5% volume share of the $0.4 billion process cheese category in Italy, primarily through the Kraft Sottilette brand
- #1 with a 43.8% volume share of the $0.3 billion process cheese category in the United Kingdom through the Kraft Dairylea brand
- other brands include:
  - El Caserio and Invernizzi cheese
  - Kraft process cheese

Latin America and Asia Pacific. Cheese products accounted for 12% of our 2000 pro forma revenue in the Latin America and Asia Pacific segment. We participate in this consumer sector as follows:

- #1 with a 48.5% volume share of the $0.1 billion process cheese category in Australia, primarily through the Kraft Singles brand
- Kraft and Eden process cheeses
- Philadelphia cream cheese
- Kraft grated cheese
- Cheese Whiz process cheese sauce

Grocery Consumer Sector

Globally, grocery accounted for $5.7 billion, or 16.6%, of our 2000 pro forma revenue.

North America

Grocery products accounted for 19% of Kraft Foods North America's 2000 pro forma revenue. We participate in this consumer sector primarily through our Cheese, Meals and Enhancers segment, which includes our Canada and Mexico businesses and our United States food service business; and our Beverages, Desserts and Cereals segment. We participate in this consumer sector in desserts, cereals and enhancers as follows:

Desserts	. #1 with an 82.8% dollar share of the $0.5 billion U.S. dry packaged desserts category through the Jell-O brand
	. #1 with a 72.7% dollar share of the $0.4 billion U.S. frozen whipped toppings category through the Cool Whip brand
Cereals	. #3 with a 16.5% dollar share of the $7.5 billion U.S. ready-to-eat cereals category through the Post brand

. Post brands include: Alpha-Bits, Banana Nut Crunch, Blueberry Morning, Cranberry Almond Crunch, Fruit & Fibre, Golden Crisp, Grape-Nuts, Great Grains, Honey Bunches of Oats, Honeycomb, Oreo O's, Pebbles, Raisin Bran, Shredded Wheat, Toasties and Waffle Crisp

. other brands are Cream of Wheat and Cream of Rice hot cereals

Enhancers

- #1 with a 31.9% dollar share of the $1.8 billion U.S. salad dressings category primarily through the Kraft brand
- #1 with a 46.4% dollar share of the $1.2 billion U.S. spoonable dressings category through the Kraft and Miracle Whip brands
- #1 with a 63.9% dollar share of the $0.2 billion U.S. steak sauces category through the A.1. brand
- other brands include:
  - Kraft and Bull's-Eye barbecue sauces
  - Grey Poupon premium mustards
  - Shake 'N Bake coatings

International

Grocery accounted for 10% of Kraft Foods International's 2000 pro forma revenue.

Europe, Middle East and Africa. Grocery items accounted for 6% of our 2000 pro forma revenue in the Europe, Middle East and Africa segment. We participate in this consumer sector principally through our Kraft pourable and spoonable salad dressings and Miracel Whip spoonable dressing.

Latin America and Asia Pacific. Grocery items accounted for 21% of our 2000 pro forma revenue in the Latin America and Asia Pacific segment. We participate in this consumer sector, as follows:

- Royal dry packaged desserts and baking powder
- Kraft spoonable and salad dressings
- Kraft and ETA peanut butter
- Vegemite yeast spread

Convenient Meals Consumer Sector

Globally, convenient meals accounted for $5.5 billion, or 15.8%, of our 2000 pro forma revenue.

North America

Convenient meals accounted for 20% of Kraft Foods North America's 2000 pro forma revenue. We participate in this consumer sector through our Oscar Mayer and Pizza segment; and our Cheese, Meals and Enhancers segment via our Canada and Mexico businesses and our United States food service business. Our products within this consumer sector are primarily frozen pizza, packaged dinners, lunch combinations and processed meats, as follows:

- #1 with a 37.5% dollar share of the $2.6 billion U.S. frozen pizza category through the DiGiorno, Tombstone, Jack's and California Pizza Kitchen brands
- #1 with a 34.8% dollar share of the growing Canadian frozen pizza category through the Delissio brand
- #1 with an 82.6% dollar share of the $0.8 billion U.S. macaroni & cheese dinners category through the Kraft brand
- other packaged dinners brands include:
  - Taco Bell Mexican-style food products
  - Stove Top Oven Classics meal kits

- #1 with an 83.6% dollar share of the $0.8 billion U.S. lunch combinations category, which we created, through the Lunchables brand

- #1 with a 31.7% dollar share of the $3.2 billion U.S. cold cuts category through the Oscar Mayer and Louis Rich brands

- #2 with a 21.3% dollar share of the $1.7 billion U.S. hot dogs category through the Oscar Mayer and Louis Rich brands

- #1 with a 19.6% dollar share of the $2.0 billion U.S. bacon category through the Oscar Mayer and Louis Rich brands

- other brands include:

  - Boca Burger soy-based meat alternative products

  - Stove Top stuffing

  - Minute rice

International

Convenient meals accounted for 4% of Kraft Foods International's 2000 pro forma revenue.

Europe, Middle East and Africa. Convenient meals accounted for 4% of our 2000 pro forma revenue in the Europe, Middle East and Africa segment. We participate in this consumer sector as follows:

- Lunchables lunch combinations

- Kraft and Miracoli pasta dinners and sauces

- Simmenthal meats in Italy

Latin America and Asia Pacific. Convenient meals accounted for 3% of our pro forma revenue in the Latin America and Asia Pacific segment, principally through Kraft macaroni & cheese dinners in Australia and Latin America.

Additional Product Disclosure

Products or similar products contributing 10% or more of our combined revenue for each of the three years in the period ended December 31, 2000 were as follows:

	1998	1999	2000
Cheese	22%	23%	23%
Coffee	20	18	17
Confectionery	11	11	10

Sales, Retailer Relations and Food Service

Sales

We have more than 20,000 salespersons operating from sales offices in 60 countries and calling on approximately 120,000 retail stores. The structure of our sales forces is tailored to local markets.

In the United States, we have a direct sales force that calls on retail outlets and retailer headquarters. It includes 150 customer business managers responsible for over 300 customer teams, servicing approximately 26,000 retail outlets. Each team has category captains charged with working with the customer to manage individual categories more effectively, creating a stronger customer relationship. For example, our Kraft Plus Three-Step Category Builder program enables retailers to improve sales within targeted product categories. This program provides retailers with consumer category data and analysis, identifies promotional, assortment, pricing and space management opportunities, and enables retailers to develop and implement plans to generate higher category growth and profits.

In the United States, we also operate two strong direct-store-delivery systems: a dry products system for snacks obtained in our Nabisco acquisition and our frozen pizza system. Through these systems, we deliver selected snack products, primarily cookies and crackers, and frozen pizza directly to our customers' stores in our own trucks. These systems employ more than 6,000 representatives calling on more than 65,000 retail outlets. The frequent presence of our employees in supermarkets helps to ensure that our products are available and displayed in the best position for retail sale. Retailers benefit from direct-store-delivery systems because they save warehousing and shelf stocking costs and because products delivered through these systems generate a high level of retail sales and profits.

In developed international markets we take an approach similar to the one we use in the United States, using direct sales forces consolidated on a country-by-country basis. We have also created specialty teams to focus on smaller retail outlets and to focus on the away-from-home channel. Because most developing markets are characterized by a large number of small retail outlets, we generally use established local distributors and wholesalers to obtain widespread penetration in these countries.

Retailer Relations

We sell our products in North America generally to supermarket chains, wholesalers, supercenters, club stores, mass merchandisers, convenience stores, gasoline stations and other retail food outlets. Internationally, we sell our products generally to retailers, supermarkets, wholesalers, distributors and gasoline stations.

Our five largest customers accounted for approximately 23% of our 2000 pro forma revenue, while our 15 largest customers accounted for approximately 40% of our 2000 pro forma revenue. None of our customers accounted for 10% or more of our 2000 pro forma revenue. The table below lists our 15 largest customers based on 2000 pro forma revenue.

15 Largest Customers		
. Ahold	. Kroger	. SuperValu
. Albertson's	. Metro	. Tenglemann
. Carrefour	. Publix	. Wal-Mart
. Delhaize le Lion	. Rewe	. Weston/Loblaws
. Fleming	. Safeway (USA)	. Winn-Dixie

Many of these customers have grown rapidly and have expanded across borders. In response, we have developed global strategies aimed at achieving our objective of being an indispensable partner to our customers. For our largest global customers, we have assembled global customer sales teams drawn from the countries in which the customers operate to assure coordinated sales and services and to execute global promotions.

A recent survey by McKinsey & Company identified the needs of global retailers as including:

- strong global brands;
- category management skills;
- managers who are highly qualified to deal with both local and multinational issues;
- significant supplier presence in the customers' key countries; and
- customized solutions.

We are well positioned to satisfy each of these needs. Our direct sales force and our direct-store-delivery personnel provide the primary interface with our customers. We plan to further improve service to our customers by expanding our vendor managed inventory programs that allow our customers to manage their inventory levels more efficiently. In 2001, we plan to roll out in the United States our Kraft Plus ez-Serv website, which facilitates communications and information flow to our customers, and we will continue to implement our category management programs that help customers determine the optimal product and brand mix within a category. We will drive these service priorities through our national, regional and global dedicated customer teams.

Food Service

In the United States, according to Technomic, Inc., the food service channel totals approximately $129 billion in manufacturers' sales and has grown at a compound annual rate of approximately 5.3% from 1996 to 2000. We sell a wide range of our brands in this channel, covering all meal and beverage occasions. Approximately 50% of our pro forma food service sales are composed of products where consumers know they are consuming our brands, compared to an industry average estimated by Technomic, Inc. to be 15% to 20%.

Kraft's United States food service business had $1.4 billion of pro forma revenue in 2000, primarily from sales in five channels:

- national quick service restaurant chains such as McDonald's and Burger King, and full service chains such as Applebee's and Outback;

- "down-the-street" outlets, including independent restaurants, small chains and hotels;

- contract management firms, such as Sodexho Marriott, Aramark and Compass, that manage dining operations for offices, schools, healthcare and recreation;

- vending operations managed by operators such as Aramark and Canteen; and

- convenience stores, such as 7-Eleven, that offer prepared food for takeout.

We are repositioning our food service business to participate in this growing channel. Our pre-Nabisco United States food service revenue declined 2.3% on a compound annual basis over the past four years as a result of two factors. First, we have been pruning our low margin businesses from our portfolio, reducing revenue, but growing operating companies income at 2.7% per year over the period. Second, our agreement granting the buyer of our former food service distribution business the exclusive right to distribute our Kraft branded products in the food service channel expired in 2000, and the buyer began to substitute private label products for some of our products. At the same time, other distributors were reluctant to authorize Kraft branded products, given our continued relationship with our former food service subsidiary.

As a result of the Nabisco acquisition, we have expanded our strategic direction to balance our overall penetration of the food service business. In addition to continuing to focus on key retail outlets, we have enhanced our selling focus to more effectively reach food service distributors. Most notably, we have targeted incremental opportunities with the top three distributors, Sysco, U.S. Foodservice and Alliant, as well as with key independent distributor organizations. As a result of these factors, together with the opportunities provided by integrating Nabisco's food service business, we believe we are now well positioned to succeed in this growing channel.

Outside North America, we have a food service business which had 2000 pro forma revenue of $0.6 billion, focused primarily on European coffee, as well as cheese and grocery products. We have a leading position in the European coffee away-from-home channel where we benefit from our new coffee machine technology, our strong retail brands and our integrated pan-European food service organization.

Consumer Marketing and Advertising

We support our brands with worldclass advertising that has earned numerous awards. During the past five years, the New York American Marketing Association has presented us with 21 Effie awards, which recognize advertising that is effective in growing brands. We received more Effie awards during this period than any other company, including top-level Gold awards for our Altoids, Balance Bar, Gevalia Kaffe, Maxwell House, Miracle Whip and Wheat Thins campaigns. We also won the 1997 Kelly Award for General Excellence in advertising for Altoids, and the 1999 London International Advertising Award for best TV/cinema spot in the foods category for Kraft dinners.

We also invest heavily in consumer promotions to stimulate demand for our products. For example, the Oreo "Cookie Stacking" and Kraft macaroni & cheese "I Want the Blues" contests increase consumer interest in our products, and the Oscar Mayer Wienermobile and Planters Mr. Peanut continue to travel the country, entertaining consumers and generating goodwill. We have garnered numerous awards for our consumer promotions, including five Reggie awards during the past five years from the Promotion Marketing Association. In 2000, we won the top-level Gold Reggie for our Oscar Mayer "Share the Smiles" consumer promotion.

Our large marketing budget and brand portfolio also enable us to differentiate ourselves from competitors that share advertising space in newspaper promotional inserts sponsored by grocery chains. In the United States, we publish Kraft Food and Family, a standalone magazine inserted into newspapers, which advertises a multitude of our brands and combines meal solution ideas and coupons for our products.

We have designed an Internet presence that enhances our position in the marketplace and enables us to develop a more direct, personal and interactive relationship with consumers. In the United States, we had four of the top ten consumer packaged goods websites--www.nabiscoworld.com, www.candystand.com, www.nabisco.com and www.kraftfoods.com. This last site, which hosts our award-winning Kraft Interactive Kitchen, achieves approximately one million visits per month and is one of the most popular food manufacturer websites of its type. The site gives consumers timely, practical meal solutions with services such as tips on making a meal with ingredients on hand, a dedicated health and wellness section, a personal recipe box and customized grocery lists by aisle. Nabiscoworld.com and Candystand.com are entertainment sites that appeal primarily to children. Our other websites for brands such as Gevalia and Altoids in the United States and Milka and Estrella in Europe in the aggregate averaged over one million visits per month in 2000.

Manufacturing and Processing Facilities

As of March 15, 2001, we had 228 manufacturing and processing facilities worldwide. In North America, we have 106 facilities, and outside of North America we have 122 facilities located in 44 countries. These manufacturing and processing facilities are located throughout the following territories:

Territory	Number of Facilities
United States	81
Canada	21
Mexico	4
Western Europe	39
Central and Eastern Europe, Middle East and Africa	14
Latin America	51
Asia Pacific	18
Total	228

We own 213 and lease 15 of these manufacturing and processing facilities. All of our plants and properties are maintained in good condition, and we believe they are suitable and adequate for our present needs.

As we further integrate Nabisco's operations into ours, we anticipate closing or selling a number of Nabisco's facilities that do not align strategically with ours. In addition, the further integration of Nabisco's operations could result in the closure or sale of a number of Kraft's facilities.

We manage our global network of production facilities and distribution centers by eliminating excess capacity through consolidation, taking advantage of best practices, harmonizing production practices and safety procedures and aggressively pursuing productivity opportunities that cut across multiple divisions, product lines and geographies. As a result of these actions, many of our production facilities and distribution centers accommodate multiple product lines. We have created worldwide operations and technology councils to facilitate the application of new technologies for manufacturing our products and new information systems for managing our facilities. This approach reduces costs, fixed assets and inventories while delivering better service to our retail customers and higher quality products to our consumers.

We believe we have highly effective manufacturing quality systems to ensure that the products we make are safe and wholesome. Over the past two years, we have invested over $100 million in our manufacturing processes designed to meet or exceed all applicable state and federal regulations and to produce food and beverages that meet our high standards. We continue to develop and commercialize new technologies and to work with government and industry associations to strengthen consumer confidence in the safety of our food supply.

We also have arrangements with more than 300 contract manufacturers worldwide, in addition to our owned and operated manufacturing facilities. These contract manufacturers produce various components and finished products for us when we determine it is advantageous to outsource the production.

Distribution

Our distribution network is an important part of our sales and customer service performance. Our objective is to meet the needs of our customers by providing them with desired stock levels and delivery times. We have developed a network of owned, leased and contracted distribution centers, depots and warehouses located throughout the world to meet the demands of our customers and our own objectives. We use a combination of owned, public and contract carriers to deliver our products from our distribution points to our customers. Our distribution system moves dry, refrigerated and frozen products.

As of March 15, 2001, our distribution facilities consisted of 550 distribution centers and depots worldwide. In North America, we had 420 distribution centers and depots, more than 75% of which support our direct-store-delivery systems. Outside North America, we had 130 distribution centers and depots in 40 countries. We own 112 of these distribution centers and two of these depots and lease 224 of these distribution centers and 212 of these depots. We believe that all of these facilities are in good condition and that we have sufficient capacity to meet our distribution needs for the foreseeable future.

We distribute food and beverage products in North America through distribution centers, satellite warehouses, company-operated and public cold-storage facilities, depots and other facilities. Most of our distribution in North America is to our customers' warehouses. We have similar warehouse delivery systems in Western Europe.

We also distribute snacks and frozen pizza through two direct-store-delivery systems in North America. Our direct-store-delivery systems for snacks and frozen pizza consist of over 6,000 salespersons delivering products from plant-based and remote warehouse operations. These systems provide in-store presence of our salespersons to ensure quality, service, prompt new product introductions, promotion and merchandising.

We have also implemented vendor managed inventory systems to meet the needs of our customers. These systems employ an electronic data interface with some of our retail customers to track their sales of our products and, consequently, their inventory requirements. We then ship the customer's requirements directly to the appropriate warehouse as needed, thereby reducing the retailer's potential for excess inventory or out-of-stock products. These vendor managed inventory systems enable our customers to improve their profitability and help us foster stronger relationships with our customers.

Competition

We are subject to highly competitive conditions in all aspects of our business. Competitors include large national and international companies and numerous local and regional public and private companies. Some competitors have different profit objectives and some international competitors are less susceptible to changes in currency exchange rates. Some international competitors also benefit from government subsidies. Our products also compete with generic products and private-label products of food retailers, wholesalers and cooperatives. We compete primarily on the basis of product quality, brand recognition, brand loyalty, service, marketing, advertising and price. Substantial advertising and promotional expenditures are required to maintain or improve a brand's market position or to introduce a new product.

Raw Materials

We are major purchasers of milk, cheese, nuts, green coffee beans, cocoa, corn products, wheat, rice, poultry, beef, vegetable oil, and sugar and other sweeteners. We also use significant quantities of glass, plastic and cardboard for our packaging requirements. We continuously monitor worldwide supply and cost trends of these commodities to enable us to take appropriate action to obtain ingredients and packaging needed for production. We purchase a substantial portion of our milk requirements from independent agricultural cooperatives and individual producers, and a substantial portion of our cheese requirements from independent sources. The prices for milk and other dairy product purchases are substantially influenced by government programs, as well as market supply and demand. The most significant cost item in coffee products is green coffee beans, which are purchased on world markets. Green coffee bean prices are affected by the quality and availability of supply, trade agreements among producing and consuming nations, the unilateral policies of the producing nations, changes in the value of the United States dollar in relation to certain other currencies and consumer demand for coffee products. Another significant cost item is the cocoa used in our chocolate confectionery products, which is purchased on world markets, the price of which is affected by the quality and availability of supply relative to demand, and changes in the value of the British pound sterling and the United States dollar relative to certain other currencies.

The prices paid for raw materials and agricultural materials used in food products generally reflect external factors such as weather conditions, commodity market fluctuations, currency fluctuations and the effects of governmental agricultural programs. Although the prices of the principal raw materials can be expected to fluctuate as a result of these factors, we believe these raw materials to be in adequate supply and generally available from numerous sources. However, we use hedging techniques to minimize the impact of price fluctuations in our principal raw materials. We do not fully hedge against changes in commodity prices and these strategies may not protect us from sharp increases in specific raw material costs, which we have experienced in the past.

We have created worldwide purchasing councils with representatives from our major geographic regions to coordinate our global sourcing requirements. The goal of these councils is to obtain the lowest available cost for our raw materials and other requirements. We are centralizing our formerly local requisitioning departments in North America and Europe, and many of our local operations will be able to order supplies through electronic catalogues on terms we plan to have centrally negotiated.

We also use and plan to expand Internet-based procurement initiatives to source our supply of various raw materials. For example, we are currently testing electronic reverse auctions and similar models for the purchase of direct and indirect materials at substantial savings. We have taken a leadership role in the development of several Internet markets. These include TRANSORA, a joint effort of major consumer products manufacturers to automate procurement and logistics processes, and Dairy.com, a joint initiative to facilitate transactions between dairy suppliers and buyers.

Employees

As of December 31, 2000, we employed approximately 117,000 people worldwide. About one-half of our 31,000 hourly employees in the United States are represented by labor unions. Most of the unionized workers at our domestic locations are represented under contracts with the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union; the United Food and Commercial Workers International Union; and the International Brotherhood of Teamsters. These contracts expire at various times throughout the next several years. Other unions represent employees at a number of our United States locations. Outside the United States, approximately 70% of our 40,000 hourly employees are represented by labor unions or workers councils. Our business units are subject to a number of laws and regulations relating to our relationship with our employees that are specific to the location of each enterprise. In addition, in accordance with European Union requirements, we have established a European Works Council composed of management and elected members of our workforce. We believe that our relations with our employees and their representative organizations are good.

Research and Development

We pursue four objectives in research and development:

- uncompromising product safety and quality;
- growth through new products;
- superior consumer satisfaction; and
- reduced costs.

Our research and development resources include more than 2,000 food scientists, chemists and engineers, deployed primarily in five key technology centers: East Hanover, New Jersey; Glenview, Illinois; Tarrytown, New York; Banbury, United Kingdom and Munich, Germany. These technology centers are equipped with pilot plants and state-of-the-art instruments. Our research and development expense was $247 million in 1998, $262 million in 1999 and $270 million in 2000. Our 2000 pro forma research and development expense was $364 million.

We regularly test our products with consumers to ensure that we are providing satisfying, high quality products. We also use our technology resources to improve consumer satisfaction, as we did recently by introducing Jacobs Kronung coffee with a proprietary process that retains the aroma of freshly ground coffee, and by introducing easier to open versions of our popular Capri Sun aseptic juice drinks and our Milka chocolate bars.

We maintain excellent food safety standards and we are developing new technologies that reduce or eliminate food safety risks across our portfolio, and we work with government and industry associations across the globe. We recently shared a proprietary food safety approach for processed meats with the United States Department of Agriculture that we will share with other food companies.

Finally, we apply technology innovations to our formulations and manufacturing processes to create high quality products at lower cost. This approach allows us to generate higher profit margins while investing more resources in new product development and marketing to drive top line growth.

Intellectual Property

Our trademark portfolio is of material importance to our business. We protect these rights by registration or otherwise in the United States and other markets where the related products are sold. We have from time to time granted various parties exclusive or non-exclusive licenses to use one or more of our trademarks in particular locations. We do not believe that these licensing arrangements have had a material effect on the conduct of our business or operating results.

Some of our products are sold under brands that we have licensed from others on terms that are generally renewable at our discretion. These licensed brands include the following:

- Starbucks bagged coffee for sale in United States grocery stores;
- Capri Sun aseptic juice drinks for sale in North America;
- Taco Bell Mexican-style food products for sale in United States grocery stores;
- Pebbles ready-to-eat cereals; and
- Breyers yogurt products.

Similarly, we own thousands of patents worldwide, and the patent portfolio as a whole is material to our business; however, no one patent or group of related patents is material to us. We also have proprietary trade secrets, technology, know-how, processes and other intellectual property rights that are not registered.

Regulation

All of our United States food products and packaging materials are subject to regulations administered by the Food and Drug Administration or, with respect to products containing meat and poultry, the United States Department of Agriculture. Among other things, these agencies enforce statutory prohibitions against misbranded and adulterated foods, establish safety standards for food processing, establish ingredients and manufacturing procedures for certain foods, establish standards of identity for certain foods, determine the safety of food additives and establish labeling standards and nutrition labeling requirements for food products. In addition, various states regulate the business of our United States operating units by licensing dairy plants, enforcing federal and state standards of identity for selected food products, grading food products, inspecting plants, regulating certain trade practices in connection with the sale of dairy products and in a few instances imposing their own labeling requirements on food products. Many of the food commodities on which our United States businesses rely are subject to governmental agricultural programs. These programs have substantial effects on prices and supplies and are subject to Congressional and administrative review. Almost all of the activities of our food operations outside of the United States are subject to local and national regulations similar to those applicable to our United States businesses and, in some cases, international regulatory provisions, such as those of the European Union, relating to labeling, packaging, food content, pricing, marketing and advertising, and related areas.

The European Union and certain individual countries require that food products containing genetically modified organisms or ingredients derived from them be labeled accordingly. Other countries may adopt similar regulations. The FDA has concluded that there is no basis for similar mandatory labeling under current United States law.

We are subject to various federal, state, local and foreign laws and regulations concerning the discharge of materials into the environment, or otherwise related to environmental protection, including the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, also known as Superfund. Superfund imposes joint and several liability on parties that arranged for the disposal of hazardous substances, and on current and previous owners and operators of a facility for the clean-up of hazardous substances released from the facility into the environment. At the end of 2000, our subsidiaries were involved in approximately 90 Superfund and other clean-up actions in the United States relating to our current operations and certain former or divested operations for which we retain environmental liability.

Outside the United States, we are subject to applicable multi-national, national and local environmental laws and regulations in the host countries in which we do business. We have specific programs across our international business units designed to meet compliance requirements in the environmental area.

Although it is not possible to predict precisely the estimated costs for such environmental-related expenditures, compliance with environmental laws and regulations, including the payment of any clean-up costs, has not had, and is not expected to have, a material adverse effect on our capital expenditures, results of operations or our competitive or financial position.

Legal Proceedings

Our subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business, including the matters discussed below. We believe that we have valid defenses, and we are vigorously defending all of the litigation pending against us. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on our results of operations or financial position.

National Cheese Exchange Cases. Since 1996, seven putative class actions have been filed by various dairy farmers alleging that we and others engaged in a conspiracy to fix and depress the prices of bulk cheese and milk through our trading activity on the National Cheese Exchange. Plaintiffs seek injunctive and equitable relief and unspecified treble damages. Two of the actions were voluntarily dismissed by plaintiffs after class certification was denied. Three cases were consolidated in state court in the Circuit Court of Wisconsin, Dane County, and in November 1999, the court granted our motion for summary judgment. The plaintiffs' appeal is now pending before the Wisconsin Court of Appeals, Fourth Circuit. Our motions to dismiss were granted in cases pending in the Circuit Court of Cook County, Illinois and in the U.S. District Court for the Central District of California. Appellate courts have reversed and remanded both cases for further proceedings. No classes have been certified in any of the cases.

Environmental Matters. On May 3, 2001, the Attorney General for the State of Ohio notified us that we may be subject to an enforcement action for alleged violations of the state's water pollution control law at our cottage cheese and sour cream production facility in Farmdale, Trumbull County, Ohio. The Ohio Attorney General has alleged that this facility has exceeded its water permit effluent limits and violated its reporting requirements. The Attorney General has offered to attempt to negotiate a settlement of this matter, and we have accepted the offer to do so. We have received no indication from the state what relief it is seeking in this matter. We recently installed additional waste water treatment equipment at the facility, and the facility currently is operating in compliance with its waste water discharge permit.

On March 20, 2000, the state of Missouri filed a civil action in the Circuit Court of Boone County, Missouri against us alleging that our practice from 1995 through 1999 of sending spent wiener casings to a farm site near Columbia, Missouri, for recycling violated the Missouri solid waste and clean water laws. The state is seeking civil penalties and injunctive relief, including the removal of the spent casings from the farm site and disposal in a permitted solid waste facility.

We are potentially liable for certain environmental matters arising from the operations of Nabisco's former wholly-owned subsidiary, Rowe Industries. Rowe operated a small engine manufacturing facility in Sag Harbor, New York in the 1950s, 1960s and early 1970s that used various solvents. About 20 homes downgradient from the site were connected to public drinking water in the mid-1980s after solvents were detected in their individual wells. Since 1996, three toxic tort cases have been brought against Nabisco in New York state court, collectively by or on behalf of approximately 80 individuals, including 17 minors. The first case, filed on March 6, 1996 in Supreme Court of the State of New York, was dismissed as barred by the statute of limitations. The other two cases, which were both filed on January 3, 2000, in Supreme Court of the State of New York, are at an early stage in the trial court. Each complaint states that the relief sought by the plaintiffs is $10 million in compensatory and $100 million in punitive damages. The primary claims are based on alleged personal injury, diminution of property value and fear or risk of cancer.

We are also potentially liable for certain environmental matters arising from Nabisco's or a former affiliate's connection with Del Monte Corporation in the 1970s and 1980s. Del Monte Corporation operated a plantation on Oahu, Hawaii, which used various pesticides for crop application over an extended time period. A pesticide spill at the site led to the closure of nearby drinking water wells and an investigation, under the oversight of the United States Environmental Protection Agency, of soil and groundwater contamination associated with the site. Upon completion of this investigation, the EPA will be selecting a plan to remedy the contamination.

In addition, two lawsuits were filed in 1999 against Del Monte Corporation and approximately six other Oahu growers and pesticide manufacturers seeking unspecified compensatory and punitive damages for alleged pesticide contamination of drinking water supplies. The Board of Water Supply of the City and County of Honolulu filed the first lawsuit on September 27, 1999 in the Circuit Court of the First Circuit of the State of Hawaii. The second lawsuit, which was filed on October 7, 1999 in the Circuit Court of the First Circuit of the State of Hawaii, was brought by numerous area residents alleging bodily injury, emotional distress and wrongful death. Both cases are in the early stages of discovery and, to our knowledge, Del Monte Corporation has not received a settlement demand in either case.

We believe a third party has indemnification obligations for these potential Del Monte Corporation environmental liabilities, and we are vigorously seeking enforcement of these indemnification rights.

MANAGEMENT

Directors and Executive Officers

We have provided below information about our directors and executive officers and their ages as of May 1, 2001.

Name	Age	Title
Geoffrey C. Bible...	63	Director and Chairman
Louis C. Camilleri..	46	Director
William H. Webb.....	61	Director
Roger K. Deromedi...	47	Director and Co-Chief Executive Officer; and President and Chief Executive Officer, Kraft Foods International
Betsy D. Holden.....	45	Director and Co-Chief Executive Officer; and President and Chief Executive Officer, Kraft Foods North America
Ronald J.S. Bell....	51	Group Vice President, Kraft Foods International and President European Union Region
Calvin J. Collier...	59	Senior Vice President, General Counsel and Corporate Secretary; and Senior Vice President, General Counsel and Corporate Affairs, Kraft Foods North America
Irene B. Rosenfeld..	48	Group Vice President, Kraft Foods North America, and President, Operations, Technology and Kraft Foods Canada, Mexico and Puerto Rico
James P. Dollive....	49	Senior Vice President and Chief Financial Officer

All directors and officers of Kraft Foods Inc., a newly-formed holding company, have held their positions with Kraft Foods Inc. since March 2001.

Geoffrey C. Bible; Director and Chairman. Mr. Bible is Chairman and Chief Executive Officer of Philip Morris Companies Inc., a position he has held since February 1995. Mr. Bible has been employed continuously by Philip Morris and its subsidiaries in various capacities since 1976. He is a director of The News Corporation Limited and the Lincoln Center for the Performing Arts, Inc.

Louis C. Camilleri; Director. Mr. Camilleri is Senior Vice President and Chief Financial Officer of Philip Morris Companies Inc., a position he has held since November 1996. Mr. Camilleri has been employed continuously by Philip Morris and its subsidiaries in various capacities since 1978. Before assuming his current position, Mr. Camilleri was President and Chief Executive Officer, Kraft Foods International from December 1995 until October 1996.

William H. Webb; Director. Mr. Webb is Chief Operating Officer of Philip Morris Companies Inc., a position he has held since March 1997. Mr. Webb has been employed continuously by Philip Morris and its subsidiaries in various capacities since 1966. Before assuming his current position, Mr. Webb was President and Chief Executive Officer, Philip Morris International Inc. from 1993 until 1997. Mr. Webb is a director of the International Tennis Hall of Fame and the Alvin Ailey American Dance Theater.

Roger K. Deromedi; Director and Co-Chief Executive Officer, Kraft Foods Inc.; and President and Chief Executive Officer, Kraft Foods International, a position he has held since April 1999. Mr. Deromedi has been employed continuously by Kraft and its subsidiaries and predecessor, General Foods Corporation, in various capacities since 1977. Before assuming his current position, Mr. Deromedi served as Group Vice President, Kraft Foods International and President Asia Pacific from 1998 until 1999; President Western Europe, Kraft Foods International from December 1995 until 1998; and Executive Vice President, Kraft Foods North America, and General Manager of the Kraft Cheese Division from 1993 until 1995.

Betsy D. Holden; Director and Co-Chief Executive Officer, Kraft Foods Inc.; and President and Chief Executive Officer, Kraft Foods North America, a position she has held since May 2000. Ms. Holden has been employed continuously by Kraft and its subsidiaries and predecessor, General Foods Corporation, in various capacities since 1982. Before assuming her current position, Ms. Holden served as Executive Vice President, Kraft Foods North America from 1998 until May 2000; Executive Vice President, Kraft Foods North America, and President of the Kraft Cheese Division from 1997 until 1998; and Executive Vice President, Kraft Foods North America, and General Manager of the Kraft Cheese Division from 1995 until 1997. Ms. Holden is a director of Tupperware Corporation, the Grocery Manufacturers Association, Evanston Northwestern Hospital and the Ravinia Music Festival. She also serves on the Advisory Board of the J.L. Kellogg Graduate School of Management at Northwestern University and is President of the Board of the Off the Street Club.

Ronald J.S. Bell; Group Vice President, Kraft Foods International and President European Union Region, a position he has held since 1998. Mr. Bell has been employed continuously by Kraft and its subsidiaries and predecessor, General Foods Corporation, in various capacities since 1974. Before assuming his current position, Mr. Bell was Executive Vice President and Area Director, Northern Europe, Kraft Foods International from 1995 until 1998. Mr. Bell is a director of United Biscuits Group (Investments) Limited.

Calvin J. Collier; Senior Vice President, General Counsel and Corporate Secretary, Kraft Foods Inc.; and Senior Vice President, General Counsel and Corporate Affairs, Kraft Foods North America, a position he has held since 1988. Before that he was a partner at the law firm of Hughes Hubbard & Reed. Mr. Collier is a member of the Board of Directors of eCPG.net, Inc. (d/b/a TRANSORA), an emeritus member of the Board of Visitors of Duke University and a member of the boards of the Council of Better Business Bureaus, Inc., the Private Adjudication Center of Duke University, and the National Advertising Review Council.

Irene B. Rosenfeld; Group Vice President, Kraft Foods North America, and President, Operations, Technology and Kraft Foods Canada, Mexico and Puerto Rico, a position she has held since February 2001. Ms. Rosenfeld has been employed continuously by Kraft and its subsidiaries and predecessor, General Foods Corporation, in various capacities since 1981. Before assuming her current position, she served as Group Vice President, Kraft Foods North America, and President, Kraft Foods Canada and Operations Technology from May 2000 until February 2001, President, Kraft Foods Canada from 1996 until May 2000; and Executive Vice President and General Manager of the Desserts and Snacks Division, Kraft Foods North America from 1994 until 1996. Ms. Rosenfeld is a director of AutoNation Inc., and on the Board of Trustees of Cornell University and is the former Chair of the Board of the Food and Consumer Products Manufacturers of Canada.

James P. Dollive; Senior Vice President and Chief Financial Officer, Kraft Foods Inc. From July 1998 until April 2001, Mr. Dollive was Senior Vice President, Finance and Information Systems, Kraft Foods North America. Mr. Dollive has been employed continuously by Kraft and its subsidiaries and predecessor, General Foods Corporation, in various capacities since 1978. Before assuming his current position, Mr. Dollive served as Vice President, Finance and Strategy, Kraft Foods International from 1997 until July 1998; and Senior Vice President, Strategy, Kraft Foods North America from 1996 until 1997.

Composition of Board of Directors

When we complete this offering, our board of directors will consist of five persons. We intend for our board ultimately to consist of nine persons. Under the corporate agreement that we intend to enter into with Philip Morris, so long as Philip Morris holds more than 50% of our then outstanding common stock, our board will have three members designated by Philip Morris and four members unaffiliated with Kraft or Philip Morris. Our board will use its best efforts to elect its four unaffiliated members within 90 days following the completion of this offering. In the event the number of our directors changes, we will amend the corporate agreement to maintain these proportions. Under the corporate agreement, Philip Morris will also have the right to designate the chairman of the board. All board members will serve one-year terms.

Committees of Board of Directors

Our board will establish various committees to assist it with its responsibilities. Those committees are described below.

Audit Committee

The Audit Committee, which will have no directors who are employees of Kraft or Philip Morris, will meet with management, our independent accountants and our internal auditors to consider the adequacy of our internal controls and other financial reporting matters. The Audit Committee will:

- approve an audit committee charter and recommend it to our board for adoption;
- recommend to our board the engagement of independent accountants;
- discuss with the independent accountants their audit procedures, including the proposed scope of the audit, the audit results and the related management letters; and
- review the services performed by the independent accountants in connection with determining their independence.

Under the corporate agreement we will enter into with Philip Morris, the committee will approve all material transactions with Philip Morris. The initial members of the committee will be three or more "independent" (as defined under the rules of the New York Stock Exchange) members of our board when they are elected.

Compensation and Governance Committee

The Compensation and Governance Committee will:

- administer our compensation programs and remuneration arrangements for our executive officers;
- review the succession plans for our chief executive officers and other senior executives; and
- make recommendations to our board on board practices, the functions and duties of committees of the board and nominees to the board, and advise the board generally on corporate governance matters, including our relations with the holders of our Class A common stock.

The members of the committee will be: Mr. Bible (chair) and three or more independent members of our board when they are elected.

Executive Committee

The Executive Committee will have authority to act for our board on most matters during intervals between board meetings. The members of the committee have not yet been appointed.

Compensation of Directors

Directors who are full-time employees of Kraft or Philip Morris will receive no additional compensation for services as a director. For our non-employee directors, we intend to provide competitive compensation and benefits that will attract and retain high quality directors, target director compensation at a level that is consistent with our compensation objectives and encourage ownership of our stock to further align their interests with those of our shareholders.

Initially, we intend to pay non-employee directors an annual retainer of $35,000 and fees of $1,000 for each board meeting attended and $1,000 for each committee meeting attended. We intend to pay the chair of each committee an annual retainer of $5,000 for additional services rendered in connection with committee chair responsibilities.

We also intend to pay non-employee directors stock-based compensation. On the date of each annual meeting of our shareholders, each non-employee director will receive shares of Class A common stock having an aggregate fair market value on that date of $30,000, and nonqualified stock options to purchase the number of shares of Class A common stock calculated by dividing $30,000 by the Black-Scholes value of a Kraft stock option. See pages 87 to 88 for a further description of the 2001 Kraft Director Plan under which we intend to grant these awards.

A non-employee director may elect to defer meeting fees and all or part of the annual retainer. Deferred amounts are "credited" to an unfunded account and may be "invested" in eight "investment choices." These "investment choices" parallel the investment alternatives offered to employees under the Kraft Foods Thrift Plan and determine the "earnings" that are credited for bookkeeping purposes to a director's account. Subject to certain restrictions, a director is permitted to take cash distributions, in whole or in part, from his or her account before or after termination of service.

Compensation Committee Interlocks and Insider Participation

With the exception of Mr. Bible, there are no "interlocks," as defined by the Securities and Exchange Commission, with respect to any member of the Compensation and Governance Committee. Mr. Bible is the Chairman and Chief Executive Officer of Philip Morris. Kraft was indebted to Philip Morris as of December 31, 2000, in the aggregate amount of $22.3 billion, which amount is in excess of 5% of our total consolidated assets as of that date.

Stock Ownership of Directors and Executive Officers

All of our common stock is currently owned by Philip Morris, and, thus, none of our directors or executive officers own any of our common stock.

The following table shows the number of shares of Philip Morris common stock beneficially owned as of February 28, 2001, by each director and executive officer named in the Summary Compensation Table in the "--Executive Compensation" section below, and by all of our directors and executive officers as a group. Unless otherwise noted, each of the named individuals had sole voting and investment power with respect to the shares shown. The beneficial ownership of each director and executive officer and of the group is less than one percent of the outstanding shares of Philip Morris. The total number of shares of Philip Morris common stock outstanding as of February 28, 2001, was 2,206,007,834.

Name	Amount and Nature of Beneficial Ownership of Philip Morris Common Stock(1)(2)
Geoffrey C. Bible	6,651,162
Louis C. Camilleri	1,471,462
William H. Webb	1,828,858
Roger K. Deromedi	657,787
Betsy D. Holden	223,936
Ronald J.S. Bell	419,429
Calvin J. Collier	426,997
Irene B. Rosenfeld	218,101
James P. Dollive	239,760
Directors and executive officers as a group (9)	12,137,492

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(1) Includes number of shares subject to purchase before April 28, 2001, upon the exercise of stock options, as follows: Mr. Bible, 5,710,839 shares; Mr. Camilleri, 1,310,190 shares; Mr. Webb, 1,586,207 shares; Mr. Deromedi, 618,280 shares; Ms. Holden, 204,020 shares; Mr. Bell, 389,290 shares; Mr. Collier, 338,846 shares; Ms. Rosenfeld, 203,350 shares; Mr. Dollive, 182,890 shares; and the directors and executive officers as a group, 10,543,912 shares.

(2) Includes 21,146 shares as to which voting and/or investment power is shared with or controlled by another person and as to which beneficial ownership is not disclaimed, as follows: Mr. Bible, 20,000 (shares held by spouse); Mr. Camilleri, 225 (shares held by spouse); and Ms. Rosenfeld, 921 (shares held in joint tenancy).

Executive Compensation

The following table shows the compensation for the fiscal year ended December 31, 2000, received by or paid to our chief executive officers and each of our three most highly compensated executives other than our chief executive officers, based on salary and bonus compensation from Philip Morris and its subsidiaries. The option grants shown in this table represent options to acquire shares of Philip Morris common stock. This offering will not result in accelerated vesting of the remaining unvested portion of these option grants nor the conversion of these options. These options will continue to vest and be exercisable according to their terms.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation: Awards		Long-Term Compensation: Payouts	
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation	Restricted Stock Value(1)	Securities Underlying Options	LTIP(2)	All Other Compensation(3)
		($)	($)	($)	($)	(Shs.)	($)	($)
Roger K. Deromedi...... President and Chief Executive Officer, Kraft Foods International	2000	634,231(4)	725,000	10,316(5)	0	257,700(4)	2,086,100	43,352
Betsy D. Holden........ President and Chief Executive Officer, Kraft Foods North America	2000	555,769(4)	700,000	4,205(6)	0	70,280(4)	1,438,500	30,088
Ronald J.S. Bell....... Group VP, Kraft Foods International and President European Union Region	2000	431,163(7)	358,372(7)	317,942(7)(8)	0	98,390	1,234,433(7)	46,867(7)
Calvin J. Collier...... Senior VP, General Counsel and Corporate Affairs, Kraft Foods North America	2000	421,250	275,000	0	0	63,260	949,000	23,739
Irene B. Rosenfeld..... Group VP, Kraft Foods North America, and President, Operations, Technology and Kraft Foods Canada, Mexico and Puerto Rico	2000	444,192	360,000	0	0	70,280	946,200	24,631

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(1) On December 29, 2000, the final day of trading in 2000, each of the named executive officers held restricted shares of Philip Morris common stock, with a value at such date as follows: Mr. Deromedi, 24,040 shares, $1,057,760; Ms. Holden, 11,810 shares, $519,640; Mr. Bell, 14,940 shares, $657,360; Mr. Collier, 7,030 shares, $309,320; and Ms. Rosenfeld, 6,750 shares, $297,000. During 2000, dividends were paid on the restricted stock in cash at the same rates and dates as all other shares of Philip Morris common stock.

(2) In 2000, a limited number of senior executives earned long-term performance awards for performance covering a three-year cycle commencing January 1, 1998, and ending December 31, 2000. The awards to the executive officers named in this table were based upon the achievement of financial and strategic goals over the three-year period.

(3) The amounts in this column consist of matching contributions to defined contribution plans. Kraft has made available funding payments to certain executives with vested accrued benefits under non-qualified retirement plans. During 2000, the following amounts, less applicable tax withholding, were made

available to the named executive officers to provide funding for matching contributions to the Kraft Foods supplemental defined contribution plan through November 30, 1999, and for earnings through May 1, 2000 on such matching contributions, unless otherwise noted: Mr. Collier, $515,949; Mr. Deromedi, $80,011 (matching contributions and earnings through May 31, 2000); Ms. Holden, $159,289; and Ms. Rosenfeld, $149,275. The funding of these amounts is not intended to increase total promised benefits.
(4) Mr. Deromedi and Ms. Holden each has a current annual base salary of $740,000. In January 2001, Mr. Deromedi and Ms. Holden received equivalent grants of stock options to acquire 146,480 shares of Philip Morris common stock.
(5) Includes reimbursement for taxes on a portion of the earnings on assets held in trust for Mr. Deromedi. These trust assets offset amounts, otherwise payable by Kraft, for vested benefits under supplemental retirement plans and are not intended to increase total promised benefits.
(6) Includes reimbursement for taxes on a portion of the earnings on assets held in trust for Ms. Holden. These trust assets offset amounts, otherwise payable by Kraft, for vested benefits under supplemental retirement plans and are not intended to increase total promised benefits.
(7) These amounts have been converted from British pounds to U.S. dollars based on a currency translation rate of .6697 as of December 29, 2000.
(8) In connection with the relocation of the Kraft Foods International European Union headquarters, Mr. Bell received a temporary housing allowance of $317,942 for 2000 and $304,429 for 2001 under an arrangement that is expiring.

Grants of Stock Options

The following table shows all grants of options to acquire shares of Philip Morris common stock to our executive officers named in the Summary Compensation Table in the fiscal year ended December 31, 2000:

2000 Option Grants

Name	Number of Securities Underlying Options Granted (#)(1)	% of Total Options Granted to Philip Morris Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Grant Date Present Value ($)(2)	Value at December 31, 2000 ($)(3)
Roger K. Deromedi.......	257,700(4)	0.63%	21.3438	January 26, 2010	823,094	5,838,502
Betsy D. Holden.........	70,280(4)	0.17%	21.3438	January 26, 2010	224,474	1,592,278
Ronald J.S. Bell........	98,390	0.24%	21.3438	January 26, 2010	314,258	2,229,144
Calvin J. Collier.......	63,260	0.15%	21.3438	January 26, 2010	202,052	1,433,231
Irene B. Rosenfeld......	70,280	0.17%	21.3438	January 26, 2010	224,474	1,592,278

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(1) Options are not exercisable until one year after the date of the grant.
(2) In accordance with Securities and Exchange Commission rules, grant date present value is determined using the Black-Scholes Model. The Black-Scholes Model is a complicated mathematical formula widely used to value exchange-traded options. However, stock options granted by Philip Morris are long-term, non-transferable and subject to vesting restrictions, while exchange-traded options are short-term and can be exercised or sold immediately in a liquid market. The Black-Scholes Model relies on several key assumptions to estimate the present value of options, including the volatility of, and dividend yield on, the security underlying the option, the risk-free rate of return on the date of grant and the estimated time period until exercise of the option. In calculating the grant date present values shown in the table, the volatility was based on the monthly closing stock prices and dividends for the time period (as shown in the table below and rounded to the nearest whole year) preceding the grant dates, the dividend yield was based on an annual dividend rate of $1.92 per share (the dividend rate in effect at the time the options were granted), the risk-free rate of return was fixed at the rate for a five-year U.S. Treasury Note for the month of grant as reported in the Federal Reserve Statistic Release H.15(159), and an estimated time period equal to the lesser of the option term or five years was used. The following assumptions were used in the table:

Black-Scholes Model Assumptions

Stock Option Grant	Expiration Date	Volatility	Dividend Yield	Risk-Free Rate of Return	Time Period
January 26, 2000	January 26, 2010	31.7%	9%	6.58%	5 years

The use of different assumptions can produce significantly different estimates of the present value of options. Consequently, the grant date present values shown in the table are only theoretical values and may not accurately represent present value. The actual value, if any, an optionee will realize will depend on the excess of market value of the Philip Morris common stock over the exercise price on the date the option is exercised.

(3) Based on the closing price of Philip Morris common stock of $44.00 on December 29, 2000, the final day of trading in 2000.

(4) In January 2001, Mr. Deromedi and Ms. Holden received equivalent grants of stock options to acquire 146,480 shares of Philip Morris common stock.

Exercises of Stock Options

The following table shows total exercises of options to purchase Philip Morris common stock in the fiscal year ended December 31, 2000, by our executive officers named in the Summary Compensation Table:

2000 Option Exercises and Year-End Values

Name	Philip Morris Common Stock Acquired on Exercise (#)	Value Realized ($)	Total Shares of Philip Morris Common Stock Underlying Unexercised Options at December 31, 2000		Value of Unexercised in-the-Money Options Held at December 31, 2000 ($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Roger K. Deromedi.......	0	0	351,460	309,950	3,319,907	6,047,516
Betsy D. Holden.........	0	0	133,740	76,530	1,131,293	1,617,281
Ronald J.S. Bell........	0	0	275,900	122,390	2,733,639	2,325,148
Calvin J. Collier.......	29,400	331,056	275,586	69,510	2,057,952	1,458,234
Irene B. Rosenfeld......	46,320	852,170	133,070	76,530	970,147	1,617,281

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(1) Based on the closing price of Philip Morris common stock of $44.00 on December 29, 2000, the final day of trading in 2000.

Pension Plan Tables

Kraft Foods Retirement Plan

Five-Year Average Compensation	Years of Service(1) 10	15	20	25	30	35	40
$ 500,000	$ 82,355	$123,532	$ 164,709	$ 205,886	$ 247,064	$ 259,564	$ 272,064
750,000	124,230	186,344	248,459	310,574	372,689	391,439	410,189
1,000,000	166,105	249,157	332,209	415,261	498,314	523,314	548,314
1,250,000	207,980	311,969	415,959	519,949	623,939	655,189	686,439
1,500,000	249,855	374,782	499,709	624,636	749,564	787,064	824,564
1,750,000	291,730	437,594	583,459	729,324	875,189	918,939	962,689
2,000,000	333,605	500,407	667,209	834,011	1,000,814	1,050,814	1,100,814
2,250,000	375,480	563,219	750,959	938,699	1,126,439	1,182,689	1,238,939
2,500,000	417,355	626,032	834,709	1,043,386	1,252,064	1,314,564	1,377,064
2,750,000	459,230	688,844	918,459	1,148,074	1,377,689	1,446,439	1,515,189
3,000,000	501,105	751,657	1,002,209	1,252,761	1,503,314	1,578,314	1,653,314

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(1) At February 1, 2001, Mr. Deromedi had accredited service of 13 years; Ms. Holden had accredited service of 17 years; Mr. Collier had accredited service of 12 years; and Ms. Rosenfeld had accredited service of 20 years.

Mr. Deromedi, Ms. Holden, Mr. Collier and Ms. Rosenfeld participate in the tax-qualified Kraft Foods Retirement Plan and a supplemental non-qualified pension plan. These plans provide for fixed retirement benefits in relation to the participant's years of accredited service, five-year average annual compensation (the highest average annual compensation during any period of five full consecutive years out of the 10 years preceding retirement) and applicable Social Security-covered compensation amount. The fixed retirement benefit is also dependent upon the periods of service before January 1, 1989 (for former Kraft participants), or January 1, 1991 (for former General Foods participants), in which the participant elected to make contributions. Allowances are payable upon retirement at the normal retirement age of 65 and upon attainment of certain conditions at earlier ages. Annual compensation includes the amount shown as annual salary and bonus in the Summary Compensation Table. At December 31, 2000, five-year average annual compensation was $803,373 for Mr. Deromedi; $535,073 for Ms. Holden; $626,579 for Mr. Collier; and $527,572 for Ms. Rosenfeld.

The above table gives examples of annual pension benefits payable under these plans. The examples, which assume retirement at the normal retirement age of 65, are based on the Social Security covered compensation amount in effect for an employee attaining age 65 in calendar year 2001. Since participant contributions could be substantial in individual cases, the benefit amounts shown in the table may be attributed in certain instances to participant contributions to a significant degree, depending upon retirement date and years of service. Kraft provides funding for individual trusts for covered officers and certain other employees with vested accrued benefits under non-qualified supplemental retirement plans. During 2000, the following amounts, less applicable tax withholding, were made available to the following executive officers named in the Summary Compensation Table to provide funding for pension benefits earned under the Kraft Foods supplemental defined benefit plan as of December 31, 1999, and valued at May 1, 2000, unless otherwise noted: Mr. Deromedi, $94,363 (projected benefit to be earned through July 1, 2001 and valued at July 1, 2000), Ms. Holden, $96,617; Mr. Collier, $734,049; and Ms. Rosenfeld, $132,834. These amounts offset benefits previously accrued and do not increase total promised benefits.

Kraft Foods Retirement Benefits Plan in the UK

Three-Year Average Covered Compensation(2)	Years of Service(1)						
	10	15	20	25	30	35	40
$ 500,000	$ 66,500	$ 99,750	$133,000	$166,250	$199,500	$232,750	$ 266,000
750,000	99,750	149,625	199,500	249,375	299,250	349,125	399,000
1,000,000	133,000	199,500	266,000	332,500	399,000	465,500	532,000
1,250,000	166,250	249,375	332,500	415,625	498,750	581,875	665,000
1,500,000	199,500	299,250	399,000	498,750	598,500	698,250	798,000
1,750,000	232,750	349,125	465,500	581,875	698,250	814,625	931,000
2,000,000	266,000	399,000	532,000	665,000	798,000	931,000	1,064,000

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(1) At January 31, 2001, Mr. Bell had accredited service of 26 years.
(2) The amounts in this table have been converted from British pounds to U.S. dollars based on a currency translation rate of .6697 as of December 29, 2000.

Mr. Bell participates in the Kraft Foods Retirement Benefits Plan in the UK. The Kraft Foods Retirement Benefits Plan in the UK is a non-contributory plan providing benefits related to the participant's years of accredited service and three-year average covered compensation as illustrated by the above table. Benefits are payable upon retirement at the normal retirement age of 62 and at earlier ages, in the form of a 50% joint and survivor annuity. Covered compensation is determined at April 6 as the rate of salary and a three-year average of bonus shown in the Summary Compensation Table less an offset for the UK State Basic Pension. At December 31, 2000, three-year average covered compensation for Mr. Bell was $644,381 ((Pounds)431,542), based on a currency translation rate of .6697 as of December 29, 2000.

Employment Contracts, Termination of Employment and Change of Control Arrangements

Philip Morris has entered into change of control employment agreements with Mr. Deromedi, Ms. Holden and Mr. Collier. The agreements provide that, if the executive is terminated other than for cause within three years after a change of control of Philip Morris or if the executive terminates his or her employment for good reason within this three-year period or voluntarily during the 30-day period following the first anniversary of the change of control, the executive is entitled to receive a lump-sum severance payment equal to two and one-half times the sum of base salary and highest annual bonus, times a fraction, the numerator of which is the number of months remaining until the expiration of the three-year period, and the denominator of which is 30, together with certain other payments and benefits, including continuation of employee welfare benefits. An additional payment is required to compensate the executive for excise taxes imposed upon payments under the agreements.

Kraft Performance Incentive Plan

Our board of directors has adopted the 2001 Kraft Performance Incentive Plan and our sole shareholder has approved the Kraft Performance Incentive Plan, which will be established concurrently with this offering.

The Kraft Performance Incentive Plan will permit us to grant to our salaried employees stock options, stock appreciation rights, restricted stock and other awards based on our Class A common stock, as well as performance-based annual and long-term incentive awards. The Kraft Performance Incentive Plan will support our ongoing efforts to develop and retain worldclass leaders and will give us the ability to provide our employees with incentives that are directly linked to the profitability of our businesses and increases in shareholder value.

Eligibility and Limits on Awards

Our salaried employees and those of our subsidiaries and affiliates who are responsible for or contribute to our combined management, growth and profitability will be eligible to receive awards under the Kraft Performance Incentive Plan, except that employees of Philip Morris and its subsidiaries other than Kraft will not be eligible to receive awards. The Kraft Performance Incentive Plan places limits on the maximum amount of awards that we may grant to any employee in any plan year.

Under the Kraft Performance Incentive Plan, no employee may receive stock options or stock appreciation rights that total more than 7,500,000 shares in any plan year. The value of an employee's annual incentive award may not exceed $7,500,000; and individual long-term incentive awards are limited to 150,000 shares times the number of years in the applicable performance cycle and, in the case of awards expressed in currency, $4,500,000 times the number of years in the applicable performance cycle.

Administration

Our Compensation and Governance Committee will administer the Kraft Performance Incentive Plan. Our Compensation and Governance Committee will select the eligible employees to receive awards and will set the terms of the awards, including any performance goals applicable to annual and long-term incentive awards. Our Compensation and Governance Committee may delegate its authority under the Kraft Performance Incentive Plan to our officers, subject to guidelines, for employees who are not our "executive officers."

Shares Reserved for Awards

The total number of shares of Class A common stock available under the Kraft Performance Incentive Plan will be 75,000,000. If any award under the Kraft Performance Incentive Plan is exercised, cashed out, terminated, expired or forfeited without payment being made in the form of our Class A common stock, the shares subject to the award will again be available for distribution under the Kraft Performance Incentive Plan, as will shares that are used by an employee to pay withholding taxes or as payment for the exercise price of an award. We may not award more than 25% of the shares issuable under the Kraft Performance Incentive Plan as restricted stock or under incentive awards or "other stock-based awards." Stock options may be exercised by tendering Class A common stock to us in full or partial payment of the exercise price.

In the event of any transaction or event that affects our Class A common stock, including but not limited to a merger, share exchange, reorganization, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off or issuance of rights or warrants, then our board is authorized, to the extent it deems appropriate, to make substitutions or adjustments in the number and kind of shares reserved for issuance under the Kraft Performance Incentive Plan, in the number, kind and price of shares subject to outstanding awards under the Kraft Performance Incentive Plan and in the limits on individual awards described above.

Annual and Long-Term Incentive Awards

We may grant annual and long-term incentive awards under the Kraft Performance Incentive Plan. The awards will be earned only if corporate, business unit or individual performance objectives over performance cycles established by or under the direction of our Compensation and Governance Committee are met. The performance objectives may vary from employee to employee, group to group and period to period. The performance objectives for awards that are intended to constitute "qualified performance-based compensation" will be based upon one or more of the following:

- earnings per share;
- total shareholder return;
- operating companies income;
- net income;
- cash flow;
- return on equity;
- return on capital; or
- economic value added, which we calculate as net after-tax operating profit less the cost of capital.

Awards may be paid in the form of cash, shares of Class A common stock or in any combination, as determined by our Compensation and Governance Committee.

Stock Options

The Kraft Performance Incentive Plan will permit us to grant to our eligible employees incentive stock options, which qualify for special tax treatment, and nonqualified stock options. The option grants may include executive ownership stock options to an eligible employee who tenders mature shares of Class A common stock already owned by the employee for at least six months to pay all or a portion of the exercise price of a stock option and/or to cover minimum-required withholding tax liabilities, including Social Security and Medicare, resulting from the exercise of the stock option. An executive ownership stock option will entitle the employee to acquire shares of Class A common stock equal to the number of mature shares tendered to pay the exercise price and/or withholding tax liabilities. The exercise price for any stock option will not be less than the fair market value of Class A common stock on the date of grant.

Stock Appreciation Rights

We may also grant stock appreciation rights either singly or in combination with underlying stock options. Stock appreciation rights entitle the holder upon exercise to receive an amount in any combination of cash or shares of Class A common stock (as determined by our Compensation and Governance Committee) equal in value to the excess of the fair market value of the shares covered by the right over the grant price. The grant price for any stock appreciation right will not be less than the fair market value of the Class A common stock on the date of grant.

Restricted Stock

We may also award shares of restricted Class A common stock. The restricted stock will vest and become transferable upon the satisfaction of conditions described in the restricted stock award agreement. If, for example, a recipient's employment terminates before the award vests, he or she will forfeit his or her restricted stock awards. Except as specified in the restricted stock award agreement, the holder of a restricted stock award will have all the rights of a holder of Class A common stock on his or her restricted shares.

Other Stock-Based Awards

The Kraft Performance Incentive Plan also provides for awards that are denominated in, valued by reference to, or otherwise based on or related to, Class A common stock. These awards may include performance shares and restricted stock units that entitle the recipient to receive, upon satisfaction of performance goals or other conditions, a specified number of shares of Class A common stock or the cash equivalent of those shares. Where the value of the stock-based award is based on the difference between the fair market value of the shares covered by the award and the exercise price, the grant price for the award will not be less than the fair market value of our Class A common stock on the date of grant.

Change-in-Control Provisions

In the event of a change in control of Kraft, such as a merger with or into another corporation in which our shareholders before the transaction do not continue to hold at least 50% of the successor or resulting entity; the sale by Philip Morris of the Kraft common stock it holds with the result that Philip Morris holds less than 50% of the aggregate voting power of Kraft; the sale of substantially all of our assets; and other transactions described in the Kraft Performance Incentive Plan, the following events will occur:

- all stock options and stock appreciation rights will become fully vested and immediately exercisable;

- the restrictions applicable to outstanding restricted stock and other stock-based awards will lapse;

- unless otherwise determined by our Compensation and Governance Committee, the value of outstanding stock options, stock appreciation rights, restricted stock and other stock-based awards will be cashed out on the basis of the highest price per share paid in any transaction reported on the New York Stock Exchange-Composite Transactions or paid or offered in any bona fide transaction related to a potential or actual change in control of Kraft during the preceding 60-day period; and

- outstanding incentive awards will be vested and paid out on a prorated basis, based on the maximum award opportunity of the awards and the number of months elapsed compared with the total number of months in the performance cycle.

Amendment

Our board may amend the Kraft Performance Incentive Plan at any time, provided that no amendment will be made without shareholder approval if shareholder approval is required under applicable law, or if the amendment would:

- decrease the grant or exercise price of any stock option, stock appreciation right or other stock-based award to less than fair market value of our Class A common stock on the date of grant; or

- increase the number of shares that may be distributed under the Kraft Performance Incentive Plan.

Transferability and Other Terms

The Kraft Performance Incentive Plan provides that an award may not be transferred except in the event of the employee's death or unless otherwise required by law. The award agreements, which will include other terms and conditions of each award, can be amended by our Compensation and Governance Committee. Awards under the Kraft Performance Incentive Plan may earn dividends or dividend equivalents, as determined by the Compensation and Governance Committee.

Founders Grant Program

Our board of directors has approved two grants of options to purchase shares of our Class A common stock, as of the closing date of this offering, to the following individuals and groups of executive officers and employees of Kraft and its subsidiaries, with the fair market values specified below. The shares of Class A common stock underlying options granted in the founders grant program are included in the 75,000,000 shares available under the Kraft Performance Incentive Plan.

The first grant of options in the founders grant program is intended to align the interests of a broad group of our middle and senior level management with the interests of our shareholders. The exercise price for each of these options is equal to the initial public offering price per share. The options will become exercisable on January 31, 2003, and will expire 10 years from the date of the grant.

Option Recipient	Number of Shares Underlying Options	Fair Market Value ($)
Roger K. Deromedi	209,677	$ 6,500,000
Betsy D. Holden	209,677	6,500,000
Ronald J.S. Bell	77,419	2,400,000
Calvin J. Collier	45,161	1,400,000
Irene B. Rosenfeld	64,516	2,000,000
James P. Dollive	48,387	1,500,000
Executive officers of Kraft and its subsidiaries as a group (6)	654,837	20,300,000
All eligible employees of Kraft and its subsidiaries as a group (2,560)	18,725,806	$580,500,000

The second grant of options in the founders grant program is intended to provide our senior executives who are most critical to the success of our business with additional performance incentives tied closely to the value of our Class A common stock. The exercise price for each of these options is equal to the initial public offering price per share. The options will become exercisable on a schedule based on total shareholder return for our Class A common stock during the three years following the date of grant. Any options that are not exercisable after these three years will become exercisable five years from the date of the grant. These options will expire 10 years from the date of the grant.

Option Recipient	Number of Shares Underlying Options	Fair Market Value ($)
Roger K. Deromedi	209,677	$ 6,500,000
Betsy D. Holden	209,677	6,500,000
Ronald J.S. Bell	64,516	2,000,000
Calvin J. Collier	48,387	1,500,000
Irene B. Rosenfeld	64,516	2,000,000
James P. Dollive	48,387	1,500,000
Executive officers of Kraft and its subsidiaries as a group (6)	645,160	20,000,000
All eligible employees of Kraft and its subsidiaries as a group (66)	2,161,290	$67,000,000

See "Option Grants and Sales to Employees" on page 96 for additional information regarding shares of our Class A common stock made available to our employees and to employees of Philip Morris and its subsidiaries.

Kraft Director Plan

Our board of directors has adopted the 2001 Kraft Director Plan and our sole shareholder has approved the Kraft Director Plan.

The Kraft Director Plan will provide for the annual grant to non-employee directors of awards of stock and stock options. The Kraft Director Plan will promote greater alignment of the interests of our non-employee directors, our shareholders and us and will assist us in attracting and retaining highly qualified non-employee directors by affording them an opportunity to share in our future success.

Eligibility

We will only grant awards under the Kraft Director Plan to members of our board who are not full-time employees of Kraft or Philip Morris or their subsidiaries. The four non-employee directors to be elected after the completion of this offering will be granted awards under the Kraft Director Plan.

Administration

Our board will designate our Compensation and Governance Committee or a subcommittee of the Compensation and Governance Committee to administer the Kraft Director Plan.

Shares Reserved for Awards

500,000 shares of Class A common stock will be reserved and available for awards under the Kraft Director Plan. If any stock option under the Kraft Director Plan is forfeited or expires without the delivery of Class A common stock, the shares subject to the stock option will again be available for distribution under the Kraft Director Plan, as will shares that are used by a non-employee director as payment for the exercise price of a stock option. Stock options may be exercised by tendering mature Class A common stock to Kraft in full or partial payment of the exercise price.

In the event of any transaction or event that affects our Class A common stock, including but not limited to a merger, share exchange, reorganization, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off or issuance of rights or warrants, then our board is authorized, to the extent it deems appropriate, to make substitutions or adjustments in the number and kind of shares reserved for issuance under the Kraft Director Plan, in the number, kind and price of shares subject to outstanding awards under the Kraft Director Plan and in the amounts of annual awards under the Kraft Director Plan or to make provision for cash payments to holders.

Annual Awards

Upon his or her initial election or appointment as a non-employee director and on the date of each annual meeting of our shareholders, each non-employee director will receive shares of Class A common stock having an aggregate fair market value on that date of $30,000, and nonqualified stock options to purchase the number of shares of Class A common stock calculated by dividing $30,000 by the Black-Scholes value of each option. In each case, fractional shares will be rounded up to the next whole share. Non-employee directors may elect to defer the receipt of the shares of Class A common stock awarded by timely filing an election to establish a notional deferred stock account, which will be credited with earnings or dividend equivalents. The term of each stock option will be 10 years and the exercise price of each option will be the fair market value of a share of our Class A common stock on the date of grant.

Amendment

Our board of directors may amend the Kraft Director Plan at any time, provided that no amendment will be made without shareholder approval if shareholder approval is required under applicable law, or if the amendment would:

- decrease the grant or exercise price for stock options to less than fair market value of our Class A common stock on the date of grant; or

- increase the number of shares that may be distributed under the Kraft Director Plan.

Transferability and Other Terms

The Kraft Director Plan provides that an award may not be transferred except in the event of a non-employee director's death or unless otherwise required by law. Other terms and conditions of each award will be included in award agreements, which can be amended.

SOLE SHAREHOLDER

Before this offering, all of the outstanding shares of our common stock will be owned by Philip Morris. After the completion of this offering, Philip Morris will own approximately 49.5% of our Class A common stock, or 47.2% if the underwriters exercise their over-allotment option in full, and 100% of our Class B common stock. Philip Morris has advised us that its current intent is to continue to hold all of our common stock beneficially owned by it following the completion of this offering, other than shares of our Class A common stock subject to stock options granted by Philip Morris to its employees. However, Philip Morris is not subject to any contractual obligation to retain its controlling interest, except that Philip Morris has agreed, subject to exceptions described under "Underwriting," not to sell or otherwise dispose of any shares of our common stock for a period of 180 days after the date of this prospectus without the prior written consent of Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. on behalf of the underwriters.

RELATIONSHIP WITH PHILIP MORRIS

Included below are descriptions of certain agreements, relationships and transactions we have with Philip Morris.

Corporate Agreement

We intend to enter into a corporate agreement with Philip Morris under which we will grant to Philip Morris a continuing option to purchase additional shares of our Class A common stock. Philip Morris may exercise the option simultaneously with the issuance of any equity security of Kraft, only to the extent necessary to permit Philip Morris to maintain its then-existing percentage ownership of our common stock. This option is not exercisable in connection with this offering, upon the exercise of the underwriters' over-allotment option or upon the issuance of stock in connection with employee compensation. The purchase price of the shares of our Class A common stock purchased upon any exercise of this option will be equal to the price paid for the Class A common stock in the related issuance if we issue Class A common stock for cash, or the then current market price of Class A common stock if we issue a different equity security or Class A common stock for other than cash.

The corporate agreement will provide that, upon the request of Philip Morris, we will use our best efforts to register under the applicable federal and state securities laws any of the shares of our Class A common stock beneficially owned by Philip Morris, including shares underlying stock options or other incentive awards made by Philip Morris to its employees or the employees of its subsidiaries. Philip Morris will also have the right to include the shares of our Class A common stock it beneficially owns in certain other registrations of our common equity securities initiated by us on our own behalf or on behalf of our other shareholders. Philip Morris will agree to pay our out-of-pocket costs and expenses in connection with each registration that Philip Morris requests or in which Philip Morris participates.

The corporate agreement will contain indemnification and contribution provisions by Philip Morris for the benefit of Kraft and related persons and by Kraft for the benefit of Philip Morris and related persons. The corporate agreement will also provide that neither Kraft nor Philip Morris will take any action or enter into any commitment or agreement that may reasonably be anticipated to result in a violation by the other party of:

- any provision of applicable law or regulation;
- any provision of the other party's articles of incorporation or bylaws;

- any existing credit agreement or other material instrument binding upon the other party; or

- any judgment, order or decree of any governmental body, agency or court having jurisdiction over the other party or any of its respective assets.

The corporate agreement will provide that all material intercompany transactions, including any material amendments to the corporate agreement, the services agreement, the tax sharing agreement or any other agreement between Kraft and Philip Morris, will be subject to the approval of the Audit Committee of our board of directors.

We have agreed with Philip Morris that both Kraft and Philip Morris have the right to:

- engage in the same or similar business activities as the other party;

- do business with any customer or client of the other party; and

- employ or engage any officer or employee of the other party.

Neither Philip Morris nor Kraft, nor their respective related persons, will be liable to the other as a result of engaging in any of these activities.

Under the corporate agreement, if one of our officers or directors who also serves as an officer or director of Philip Morris becomes aware of a potential transaction related primarily to the food and beverage industry, other than beer, that may represent a corporate opportunity for both Kraft and Philip Morris, the officer or director has no duty to present that opportunity to Philip Morris; and we will have the sole right to pursue the transaction if our board so determines. If one of our officers or directors who also serves as an officer or director of Philip Morris becomes aware of any other potential transaction that may represent a corporate opportunity for both Kraft and Philip Morris, the officer or director will have a duty to present that opportunity to Philip Morris; and Philip Morris will have the sole right to pursue the transaction if Philip Morris' board so determines. If one of our officers or directors who does not serve as an officer or director of Philip Morris becomes aware of a potential transaction that may represent a corporate opportunity for both Kraft and Philip Morris, neither Kraft nor the officer or director has a duty to present that opportunity to Philip Morris; and we may pursue the transaction if our board so determines.

Under the corporate agreement, we must obtain Philip Morris' written consent before taking any of the following actions:

- entering into any agreement or arrangement that binds or purports to bind Philip Morris or any of its affiliates, or contains provisions that trigger a default or require a material payment when Philip Morris exercises its rights to convert the Class B common stock;

- declaring extraordinary dividends or making other extraordinary distributions to the holders of our capital stock; and

- issuing any equity securities or securities convertible into or exercisable for equity securities except for Class A common stock equity securities issued or granted to our employees.

Philip Morris may assign these consent rights to a third party who may exercise them so long as the third party directly or indirectly owns or has the right to acquire more than 50% of our then outstanding common stock.

The corporate agreement will terminate when Philip Morris owns less than 50% of our then outstanding common stock, except that the indemnification provisions will survive the termination.

Services Agreement

Philip Morris Management Corp., a wholly-owned subsidiary of Philip Morris, has provided, and we expect that it will continue to provide, certain services to us for fees based on costs incurred by Philip Morris and its subsidiaries in providing the services and a management fee. In 2000, we paid $248 million for these services and we expect to make comparable payments to Philip Morris Management Corp. for similar levels of services in 2001. In 2001, Philip Morris Management Corp. will also provide additional information technology and financial services for approximately $50 million. We expect these additional payments to be approximately equivalent to the costs we will eliminate from previously providing these services internally. We believe the terms of these services in the aggregate are at least as favorable to us as those we could have obtained from unrelated third parties through arm's-length negotiations. These services, which are the subject of a services agreement, include:

- government and corporate affairs services;
- human resources services;
- treasury services, including insurance services;
- financial, reporting, research and ledger services;
- internal auditing services;
- information technology services;
- legal and corporate secretary services;
- aviation, building and conference services;
- tax services;
- corporate planning and analysis services;
- corporate business development services; and
- financial communications and investor relations services.

Philip Morris Management Corp. and we may each terminate any or all of the services under the services agreement by giving the other party written notice at least 12 months in advance of termination. Philip Morris Management Corp. has agreed to provide us with reasonable assistance to make an orderly transition to other service providers upon the termination of the services agreement.

Tax-Sharing Agreement

We are, and after the completion of this offering will continue to be, included in Philip Morris' federal consolidated income tax group, and our federal income tax liability will be included in the consolidated federal income tax liability of Philip Morris and its subsidiaries. In certain circumstances, certain of our subsidiaries will also be included with certain Philip Morris subsidiaries in combined, consolidated or unitary income tax groups for state and local income tax purposes. We intend to enter into a tax-sharing agreement with Philip Morris. Under the tax-sharing agreement, we will make payments to Philip Morris, with respect to any period, for the amount of taxes to be paid by us, and these taxes will be determined as though we were to file separate federal, state and local income tax returns as the common parent of an affiliated group of corporations filing combined, consolidated or unitary, as applicable, federal, state and local income tax returns. Our payments to Philip Morris will also include amounts determined by a tax authority or estimated by Philip Morris to be due as a result of a redetermination of the tax liability of Philip Morris arising from an audit or otherwise. We will be reimbursed, however, for tax items such as foreign tax credits, net operating losses and alternative minimum tax credits, based on the usage of the tax items by the consolidated group.

In determining the amount of tax-sharing payments under the tax-sharing agreement, Philip Morris will prepare pro forma returns with respect to federal and applicable state and local income taxes that reflect the same positions and elections used by Philip Morris in preparing the returns for Philip Morris' consolidated group and other applicable groups. The tax-sharing agreement provides that Philip Morris:

- will continue to have all the rights of a parent of a consolidated group, and similar rights provided for by applicable state and local law with respect to a parent of a combined, consolidated or unitary group;
- will be the sole and exclusive agent for Kraft in any and all matters relating to the income, franchise and similar liabilities of Kraft, to the extent included in the consolidated federal and combined, consolidated or unitary state and local income tax returns;
- will have sole and exclusive responsibility for the preparation and filing of consolidated federal and combined, consolidated or unitary state and local income tax returns, or amended returns; and
- will have the power, in its sole discretion, with respect to any consolidated federal and combined, consolidated or unitary state and local income tax returns, to contest or compromise any asserted tax adjustment or deficiency and to file, litigate or compromise any claim for refund on our behalf.

In addition, Philip Morris will undertake to provide the services mentioned above with respect to our separate state and local returns and our foreign returns.

In general, we will be included in Philip Morris' consolidated group for federal income tax purposes for so long as Philip Morris beneficially owns at least 80% of the total voting power and value of our outstanding common stock. Each member of a consolidated group is jointly and severally liable for the federal income tax liability of each other member of the consolidated group. Accordingly, although the tax-sharing agreement allocates tax liabilities between Kraft and Philip Morris, during the period in which we are included in Philip Morris' consolidated group, we could be liable in the event that any federal tax liability is incurred, but not discharged, by any other member of Philip Morris' consolidated group. See "Risk Factors--Risks Related to Our Relationship with Philip Morris." However, Philip Morris and we will agree to indemnify each other for the respective obligations under the tax-sharing agreement, which includes any liability of Nabisco for the payment of federal tax liability as a result of an express or implied obligation to indemnify any other person.

Litigation Against Philip Morris

Various legal actions, proceedings and claims relating to tobacco products are pending or may be instituted against operating subsidiaries of Philip Morris that are engaged in the manufacture and sale of cigarettes and also against Philip Morris. If plaintiffs were successful in holding Philip Morris responsible, shares of our Class A or Class B common stock that are owned by Philip Morris would be among the assets of Philip Morris available to satisfy these liabilities. Because Kraft Foods Inc. and its subsidiaries are separate corporations that have not engaged in the business of manufacturing and selling cigarettes, we believe that the risk that our assets could be attached to satisfy these liabilities is remote.

Borrowings from Philip Morris

During 2000, we issued long-term notes payable to Philip Morris in the aggregate principal amount of $15.0 billion. See Note 3 to our combined financial statements for a description of the terms of these notes and other short-term borrowings from Philip Morris and its affiliates.

DESCRIPTION OF CAPITAL STOCK

General

The authorized capital stock of Kraft consists of:

- 3,000,000,000 shares of Class A common stock, without par value;
- 2,000,000,000 shares of Class B common stock, without par value; and
- 500,000,000 shares of preferred stock, without par value.

Before this offering, there were 275,000,000 shares of Class A common stock and 1,180,000,000 shares of Class B common stock outstanding, all of which were held by Philip Morris. After this offering there will be 555,000,000 shares of Class A common stock outstanding, not including shares subject to the underwriters' over-allotment option, and 1,180,000,000 shares of Class B common stock outstanding. At the closing of this offering, no shares of preferred stock will be outstanding.

The following description of our capital stock is subject to our articles of incorporation and bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part, and the provisions of applicable Virginia law.

Common Stock

Voting Rights

The holders of Class A common stock and Class B common stock generally have identical rights, except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to 10 votes per share on all matters to be voted on by shareholders. Directors are elected by a plurality of the votes cast by shares entitled to vote. With certain exceptions, other matters to be voted on by shareholders must be approved by a majority of the votes cast on the matter by the holders of Class A common stock and Class B common stock present in person or represented by proxy, voting together as a single voting group at a meeting at which a quorum is present, subject to any voting rights granted to holders of any outstanding shares of preferred stock. Approval of an amendment of our articles of incorporation, a merger, a share exchange, a sale of all our property or a dissolution must be approved by a majority of all votes entitled to be cast by the holders of Class A common stock and Class B common stock, voting together as a single group.

Dividends

Holders of Class A common stock and Class B common stock will share equally on a per share basis in any dividend declared by our board of directors, subject to any preferential rights of holders of any outstanding shares of preferred stock. Dividends payable in shares of common stock may be paid only as follows: shares of Class A common stock may be paid only to holders of Class A common stock, and shares of Class B common stock may be paid only to holders of Class B common stock; and the number of shares so paid will be payable at the same rate per share so as to retain the relative proportion of outstanding shares of Class A common stock and Class B common stock.

Conversion

Each share of Class B common stock is convertible while held by Philip Morris or any of its subsidiaries, excluding Kraft, at the option of the holder into one share of Class A common stock. Following any distribution of Class B common stock to shareholders of Philip Morris in a transaction, including any distribution in exchange for Philip Morris shares or securities, intended to qualify as a tax-free distribution under Section 355 of the Internal Revenue Code, or any corresponding provision of any successor statute (a "Tax-Free Spin-Off"), shares of Class B common stock will no longer be convertible into shares of Class A common stock. Shares of Class B common stock transferred to shareholders of Philip Morris in a Tax-Free Spin-Off will not be converted into shares of Class A common stock and, following a Tax-Free Spin-Off, shares of Class B common stock will be transferable as Class B common stock, subject to applicable laws.

Before a Tax-Free Spin-Off, any shares of Class B common stock transferred to a person other than Philip Morris or any of its subsidiaries, excluding Kraft, will automatically be converted into shares of Class A common stock.

Other Rights

In the event of any reorganization of Kraft with one or more corporations or a merger or share exchange of Kraft with another corporation in which shares of our common stock are converted into or exchangeable for shares of stock, other securities or property, including cash, all holders of our common stock, regardless of class, will be entitled to receive with respect to each share held the same kind and amount of shares of stock and other securities and property, including cash.

On liquidation, dissolution or winding up of Kraft, after payment in full of the amounts required to be paid to holders of any outstanding shares of preferred stock, if any, all holders of common stock, regardless of class, are entitled to receive the same amount per share with respect to any distribution of assets to holders of shares of common stock.

No shares of either class of common stock are subject to redemption or have preemptive rights to purchase additional shares of common stock or other securities of Kraft.

Upon closing of this offering, all the outstanding shares of Class A common stock and Class B common stock will be validly issued, fully paid and nonassessable.

Preferred Stock

Our board of directors has the authority, without action by the shareholders, to designate and issue preferred stock in one or more series or classes and to designate the rights, preferences and privileges of each series or class, which may be greater than the rights of our common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of our common stock until our board of directors determines the specific rights of the holders of the preferred stock. However, the effects might include, among other things:

- restricting dividends on our common stock;
- diluting the voting power of our common stock;
- impairing the liquidation rights of our common stock; or
- delaying or preventing a change in control of us without further action by the shareholders.

We have no present plans to issue any shares of preferred stock.

Certain Provisions of Virginia Law, our Articles of Incorporation and our Bylaws

Board of Directors; Removal; Vacancies

Virginia law provides that the board of directors of a Virginia corporation shall consist of a number of individuals specified in or fixed in accordance with the bylaws of the corporation or, if not specified in or fixed in accordance with the bylaws, then a number specified in or fixed in accordance with the articles of incorporation of the corporation.

Our bylaws will provide that the number of members of our board of directors shall be nine. Under Virginia law, our board of directors may amend the bylaws from time to time to increase or decrease the number of directors by up to 30% of the number of directors last elected by our shareholders; provided, that any decrease in the number of directors may not shorten an incumbent director's term or reduce any quorum or voting requirements until the person ceases to be a director.

Under Virginia law, a member of our board of directors may be removed with or without cause by a majority of the votes entitled to be cast at a meeting of shareholders called expressly for that purpose at which a quorum is present. If a director is elected by a voting group of shareholders, only the shareholders of that voting group may participate in the vote to remove the director.

Our bylaws provide that any vacancy occurring on our board of directors may be filled by the affirmative vote of the majority of the remaining directors, though less than a quorum.

Shareholder Meetings

Under our bylaws, only our board of directors, the chairman of our board of directors and, until Philip Morris owns less than 50% of our common stock, Philip Morris, may call special meetings of shareholders.

No Cumulative Voting

Our articles of incorporation and bylaws do not provide for cumulative voting in the election of directors.

Shareholder Nominations and Proposals

Our bylaws provide that, subject to the rights of holders of any outstanding shares of preferred stock, a shareholder may nominate one or more persons for election as directors at a meeting only if written notice of the shareholder's nomination has been given, either by personal delivery or certified mail, to the corporate secretary of Kraft not less than 120 nor more than 150 days before the first anniversary of the date of our proxy statement in connection with the last annual meeting of shareholders. Each notice must contain:

- the name, age, business address and, if known, residential address of each nominee;
- the principal occupation or employment of each nominee;
- the number and class of capital shares of Kraft beneficially owned by each nominee;
- any other information relating to each nominee required by the Securities and Exchange Commission's proxy rules; and
- the written consent of each nominee to be named in our proxy statement and to serve as director if elected.

The corporate secretary of Kraft will deliver all notices to the Compensation and Governance Committee of our board of directors for review. After review, the Compensation and Governance Committee will make its recommendation regarding nominees to our board of directors. Defective nominations will be disregarded. Until Philip Morris owns less than 50% of our outstanding voting shares on an as-converted basis, notice by Philip Morris shall be timely and complete if delivered orally at any time prior to or during the annual meeting.

For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice of the proposed business in writing to the corporate secretary of Kraft. To be timely, a shareholder's notice must be given, either by personal delivery or by certified mail, to the Secretary not less than 120 days nor more than 150 days before the first anniversary of the date of our proxy statement in connection with the last annual meeting. The notice must contain:

- a brief description of the business desired to be brought before the annual meeting and the reasons for conducting the business at the annual meeting;

- the name and address of the shareholder proposing the business as they appear on the stock transfer books of Kraft;

- a representation that the shareholder is a shareholder of record and intends to appear in person or by proxy at the annual meeting to bring the business proposed in the notice before the meeting;

- the class, series and number of our shares beneficially owned by the shareholder; and

- any material interest of the shareholder in the business.

Business brought before an annual meeting without complying with these provisions will not be transacted. Until Philip Morris owns less than 50% of our outstanding voting shares on an as-converted basis, notice by Philip Morris shall be timely and complete if delivered orally at any time prior to or during the meeting.

Liability of Officers and Directors

Our articles of incorporation provide that no director or officer shall be liable to Kraft or its shareholders for monetary damages except for liability resulting from willful misconduct or a knowing violation of the criminal law or of any federal or state securities laws.

Our articles of incorporation require us to indemnify any director, officer or employee who was or is a party to any proceeding due to his or her status as a director, officer or employee of Kraft, and any director, officer or employee serving at the request of Kraft as a director, trustee, partner, officer or employee of another entity, unless he or she engaged in willful misconduct or a knowing violation of the criminal law. We have been informed that in the opinion of the Securities and Exchange Commission indemnification for liabilities under the Securities Act of 1933 is against public policy and is unenforceable.

Anti-Takeover Statutes

We have opted out of the Virginia anti-takeover law regulating "control share acquisitions." Under Virginia law, shares acquired in a control share acquisition have no voting rights unless granted by a majority vote of all outstanding shares other than those held by the acquiring person or any officer or employee director of the corporation, or the articles of incorporation or bylaws of the corporation provide that this regulation does not apply to acquisitions of its shares. An acquiring person that owns five percent or more of the corporation's voting stock may require that a special meeting of the shareholders be held, within 50 days of the acquiring person's request, to consider the grant of voting rights to the shares acquired in the control share acquisition. If voting rights are not granted and the corporation's articles of incorporation or bylaws permit, the acquiring person's shares may be repurchased by the corporation, at its option, at a price per share equal to the acquiring person's cost. Virginia law grants dissenters' rights to any shareholder who objects to a control share acquisition that is approved by a vote of disinterested shareholders and that gives the acquiring person control of a majority of the corporation's voting shares. This regulation was designed to deter certain takeovers of Virginia public corporations.

Virginia law also regulates "affiliated transactions." Material acquisition transactions between a Virginia corporation and any holder of more than 10% of any class of its outstanding voting shares are required to be approved by the holders of at least two-thirds of the remaining voting shares. Affiliated transactions subject to this approval requirement include mergers, share exchanges, material dispositions of corporate assets not in the ordinary course of business, any dissolution of the corporation proposed by or on behalf of a 10% holder or any reclassification, including reverse stock splits, recapitalization or merger of the corporation with its subsidiaries, that increases the percentage of voting shares owned beneficially by a 10% holder by more than five percent. Because Philip Morris currently owns 100% of our stock, the Virginia law regulating affiliated transactions will not apply to Philip Morris.

Transfer Agent and Registrar

The transfer agent and registrar for our Class A common stock is EquiServe Trust Company, N.A.

OPTION GRANTS AND SALES TO EMPLOYEES

We intend to grant options to purchase shares of our Class A common stock to approximately 2,600 employees in a founders grant program pursuant to the Kraft Performance Incentive Plan. See "Management--Kraft Performance Incentive Plan" on page 83. Philip Morris intends to grant options to purchase shares of our Class A common stock that Philip Morris owns to approximately 1,600 employees of its subsidiaries. Each option will have an exercise price equal to the initial public offering price shown on the cover page of this prospectus. Each option will become exercisable on January 31, 2003, and will expire 10 years from the date of grant. We currently expect to file registration statements under the Securities Act of 1933 to register these shares.

At our request, the underwriters have reserved for sale to U.S.-based employees of Kraft and Philip Morris and their respective subsidiaries in a directed share purchase plan up to 8,400,000 of the shares of our Class A common stock offered by this prospectus at the initial public offering price shown on the cover page of this prospectus. See "Underwriting" on page 101.

Finally, we intend to grant to approximately 4,355 of our employees resident in countries other than the United States an option to purchase 100 shares of our Class A common stock at the initial public offering price shown on the cover page of this prospectus. Philip Morris intends to grant to each of approximately 3,000 employees of its subsidiaries resident in countries other than the United States an option to purchase 100 shares of our Class A common stock that Philip Morris owns at the initial public offering price shown on the cover page of this prospectus.

SHARES ELIGIBLE FOR FUTURE SALE

All of the shares of our Class A common stock sold in this offering will be freely tradable without restriction under the Securities Act of 1933, except for any shares that may be acquired by an affiliate of Kraft, as that term is defined in Rule 144 under the Securities Act. Persons who may be deemed to be affiliates generally include individuals or entities that control, are controlled by, or are under common control with, Kraft and may include directors and officers of Kraft as well as significant shareholders of Kraft.

The shares of our Class A and Class B common stock held by Philip Morris are "restricted securities" as defined in Rule 144, and may not be sold other than through registration under the Securities Act or under an exemption from registration, such as the one provided by Rule 144.

Generally, Rule 144 provides that a person who has beneficially owned "restricted" shares for at least one year will be entitled to sell on the open market in brokers' transactions, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of common stock; and

- the average weekly trading volume of the common stock on the open market during the four calendar weeks preceding such sale.

Sales under Rule 144 are also subject to post-sale notice requirements and the availability of current public information about the issuer.

In the event that any person other than Philip Morris who is deemed to be our affiliate purchases shares of our common stock in this offering or acquires shares of our common stock pursuant to one of our employee benefit plans, the shares held by that person are required under Rule 144 to be sold in brokers' transactions, subject to the volume limitations described above. Shares properly sold in reliance upon Rule 144 to persons who are not affiliates are thereafter freely tradable without restriction.

Philip Morris and we have agreed not to offer or sell any shares of our Class A or Class B common stock, subject to the exceptions listed on page 103, for a period of 180 days after the date of this prospectus, without the prior written consent of Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as representatives of the underwriters.

Our senior officers and the senior officers of Philip Morris and its subsidiaries who are purchasing our Class A common stock in this offering have signed lock-up agreements with the underwriters under which they have agreed not to transfer or dispose of, directly or indirectly, any shares of our Class A common stock acquired by them from among the shares reserved for sales to employees for a period of 180 days after the date of this prospectus without the prior written consent of Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as representatives of the underwriters.

Kraft has been advised by the representatives that they may at their discretion waive the lock-up agreements; however, they have no current intention of releasing any shares subject to a lock-up agreement. The release of any lock-up would be considered on a case-by-case basis. In considering any request to release shares covered by a lock-up agreement, the representatives would consider, among other factors, the particular circumstances surrounding the request, including but not limited to the number of shares requested to be released, market conditions, the possible impact on the market for our Class A common stock, the trading price of our Class A common stock, historical trading volumes of our Class A common stock, the reasons for the request and whether the person seeking the release is one of Kraft's or Philip Morris' officers or directors, or is Kraft or Philip Morris. No agreement has been made between the representatives and Kraft or any shareholder pursuant to which the representatives will waive the lock-up restrictions.

Sales of substantial amounts of our common stock in the open market, or the availability of such shares for sale, could adversely affect the price of our common stock.

All shares issued in this offering or to employees as described in the previous section, other than shares issued to affiliates, generally will be freely tradable.

MATERIAL UNITED STATES FEDERAL TAX CONSEQUENCES FOR NON-UNITED STATES SHAREHOLDERS

This is a general summary of material United States federal income and estate tax considerations with respect to your acquisition, ownership and disposition of Class A common stock if you are a beneficial owner of shares other than:

- a citizen or resident of the United States;

- a corporation, partnership or other entity created or organized in, or under the laws of, the United States or any political subdivision of the United States;

- an estate, the income of which is subject to United States federal income taxation regardless of its source;

- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust; or

- a trust that existed on August 20, 1996, was treated as a United States person on August 19, 1996, and elected to be treated as a United States person.

This summary does not address all of the United States federal income and estate tax considerations that may be relevant to you in light of your particular circumstances or if you are a beneficial owner subject to special treatment under United States income tax laws (such as a "controlled foreign corporation," "passive foreign investment company," "foreign personal holding company," company that accumulates earnings to avoid United States federal income tax, foreign tax-exempt organization, financial institution, broker or dealer in securities or former United States citizen or resident). This summary does not discuss any aspect of state, local or non-United States taxation. This summary is based on current provisions of the Internal Revenue Code ("Code"), Treasury regulations, judicial opinions, published positions of the United States Internal Revenue Service ("IRS") and all other applicable authorities, all of which are subject to change, possibly with retroactive effect. This summary is not intended as tax advice.

We urge prospective non-United States shareholders to consult their tax advisors regarding the United States federal, state, local and non-United States income and other tax considerations of acquiring, holding and disposing of shares of Class A common stock.

Dividends

In general, any distributions we make to you with respect to your shares of Class A common stock that constitute dividends for United States federal income tax purposes will be subject to United States withholding tax at a rate of 30% of the gross amount, unless you are eligible for a reduced rate of withholding tax under an applicable income tax treaty and you provide proper certification of your eligibility for such reduced rate (usually on an IRS Form W-8BEN). A distribution will constitute a dividend for United States federal income tax purposes to the extent of our current or accumulated earnings and profits as determined under the Code. Any distribution not constituting a dividend will be treated first as reducing your basis in your shares of Class A common stock and, to the extent it exceeds your basis, as gain from the disposition of your shares of Class A common stock.

Dividends we pay to you that are effectively connected with your conduct of a trade or business within the United States (and, if certain income tax treaties apply, are attributable to a United States permanent establishment maintained by you) generally will not be subject to United States withholding tax if you comply with applicable certification and disclosure requirements. Instead, such dividends generally will be subject to United States federal income tax, net of certain deductions, at the same graduated individual or corporate rates applicable to United States persons. If you are a corporation, effectively connected income may also be subject to a "branch profits tax" at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty). Dividends that are effectively connected with your conduct of a trade or business but that under an applicable income tax treaty are not attributable to a United States permanent establishment maintained by you may be eligible for a reduced rate of United States withholding tax under such treaty, provided you comply with certification and disclosure requirements necessary to obtain treaty benefits.

Sale or Other Disposition of Class A Common Stock

You generally will not be subject to United States federal income tax on any gain realized upon the sale or other disposition of your shares of Class A common stock unless:

- the gain is effectively connected with your conduct of a trade or business within the United States (and, under certain income tax treaties, is attributable to a United States permanent establishment you maintain);

- you are an individual, you hold your shares of Class A common stock as capital assets, you are present in the United States for 183 days or more in the taxable year of disposition and you meet other conditions, and you are not eligible for relief under an applicable income tax treaty; or

- we are or have been a "United States real property holding corporation" for United States federal income tax purposes (which we believe we are not and have never been, and do not anticipate we will become) and you hold or have held, directly or indirectly, at any time within the shorter of the five-year period preceding disposition or your holding period for your shares of Class A common stock, more than 5% of our Class A common stock.

Gain that is effectively connected with your conduct of a trade or business within the United States generally will be subject to United States federal income tax, net of certain deductions, at the same rates applicable to United States persons. If you are a corporation, the branch profits tax also may apply to such effectively connected gain. If the gain from the sale or disposition of your shares is effectively connected with your conduct of a trade or business in the United States but under an applicable income tax treaty is not attributable to a permanent establishment you maintain in the United States, your gain may be exempt from United States tax under the treaty. If you are described in the second bullet point above, you generally will be subject to United States tax at a rate of 30% on the gain realized, although the gain may be offset by some United States source capital losses realized during the same taxable year.

Information Reporting and Backup Withholding

We must report annually to the IRS the amount of dividends or other distributions we pay to you on your shares of Class A common stock and the amount of tax we withhold on these distributions regardless of whether withholding is required. The IRS may make copies of the information returns reporting those dividends and amounts withheld available to the tax authorities in the country in which you reside pursuant to the provisions of an applicable income tax treaty or exchange of information treaty.

The United States imposes a backup withholding tax on dividends and certain other types of payments to United States persons. You will not be subject to backup withholding tax on dividends you receive on your shares of Class A common stock if you provide proper certification (usually on an IRS Form W-8BEN) of your status as a non-United States person or you are a corporation or one of several types of entities and organizations that qualify for exemption (an "exempt recipient").

Information reporting and backup withholding generally are not required with respect to the amount of any proceeds from the sale of your shares of Class A common stock outside the United States through a foreign office of a foreign broker that does not have certain specified connections to the United States. However, if you sell your shares of Class A common stock through a United States broker or the United States office of a foreign broker, the broker will be required to report the amount of proceeds paid to you to the IRS and also backup withhold on that amount unless you provide appropriate certification (usually on an IRS Form W-8BEN) to the broker of your status as a non-United States person or you are an exempt recipient. Information reporting (and backup withholding if the appropriate certification is not provided) also apply if you sell your shares of Class A common stock through a foreign broker deriving more than a specified percentage of its income from United States sources or having certain other connections to the United States.

Any amounts withheld with respect to your shares of Class A common stock under the backup withholding rules will be refunded to you or credited against your United States federal income tax liability, if any, by the IRS if the required information is furnished in a timely manner.

Estate Tax

Class A common stock owned or treated as owned by an individual who is not a citizen or resident (as defined for United States federal estate tax purposes) of the United States at the time of his or her death will be included in the individual's gross estate for United States federal estate tax purposes and therefore may be subject to United States federal estate tax unless an applicable estate tax treaty provides otherwise. Recently enacted legislation reduces the maximum federal estate tax rate over an 8-year period beginning in 2002 and eliminates the tax for estates of decedents dying after December 31, 2009. In the absence of renewal legislation, these amendments will expire and the federal estate tax provisions in effect immediately prior to 2002 will be restored for estates of decedents dying after December 31, 2010.

UNDERWRITING

Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. are acting as joint book running managers of the offering and are acting as representatives of the underwriters named below. Subject to the terms and conditions contained in the underwriting agreement dated June 12, 2001, we have agreed to sell to the underwriters the number of shares of Class A common stock set forth opposite each underwriter's name below.

Underwriters	Number of Shares
Credit Suisse First Boston Corporation	44,321,385
Salomon Smith Barney Inc.	44,321,385
Deutsche Banc Alex. Brown Inc.	24,696,000
J.P. Morgan Securities Inc.	24,696,000
Morgan Stanley & Co. Incorporated	24,696,000
UBS Warburg LLC	24,696,000
BNP Paribas	11,592,000
HSBC Securities (USA) Inc.	11,592,000
Lehman Brothers Inc.	11,592,000
Blaylock & Partners, L.P.	5,040,000
Dresdner Kleinwort Wasserstein Securities LLC	5,040,000
Prudential Securities Incorporated	5,040,000
Ramirez & Co., Inc.	5,040,000
Sanford C. Bernstein & Co., Inc.	5,040,000
Utendahl Capital Partners, L.P.	5,040,000
ABN AMRO Rothschild LLC	775,000
Credit Lyonnais Securities (USA) Inc.	775,000
ING Barings Corp	775,000
Robertson Stephens, Inc.	775,000
SG Cowen Securities Corporation	775,000
Muriel Siebert & Co., Inc.	775,000
BNY Capital Markets, Inc.	775,000
Dain Rauscher Incorporated	775,000
Davenport & Co. LLC	775,000
A.G. Edwards & Sons, Inc.	775,000
Invemed Associates, LLC	775,000
Adams, Harkness & Hill, Inc.	442,610
Advest Inc.	442,610
Robert W. Baird & Co. Incorporated	442,610
Banca Akros S.p.A. - Gruppo Banca Popolare di Milano S.c.a.r.l.	442,610
BB&T Capital Markets, a Division of Scott & Stringfellow, Inc.	442,610
BBVA Securities Inc.	442,610
M.R. Beal & Company	442,610
William Blair & Company, L.L.C.	442,610
BOE Securities, Inc.	442,610
The Chapman Company	442,610
Chatsworth Securities LLC	442,610
Crowell, Weedon & Co.	442,610
CSFBdirect Inc.	442,610
Danske Securities	442,610
D.A. Davidson & Co.	442,610
Doley Securities, Inc.	442,610
Fahnestock & Co. Inc.	442,610
Gardner Rich & Company, Inc.	442,610
Gruntal & Co., L.L.C.	442,610

Underwriters	Number of Shares
Guzman & Company	442,610
Intesa Bci	442,610
Jackson Securities Incorporated	442,610
Janney Montgomery Scott LLC	442,610
C.L. King & Associates, Inc.	442,610
Lebenthal & Co., Inc.	442,610
Legg Mason Wood Walker, Incorporated	442,610
Loop Capital Markets	442,610
McDonald Investments Inc., a KeyCorp Company	442,610
Melvin Securities, LLC.	442,610
Mizuho International plc	442,610
Neuberger Berman, LLC	442,610
Ormes Capital Markets, Inc.	442,610
Parker/Hunter Incorporated	442,610
Pryor, Counts & Co., Inc.	442,610
Raymond James & Associates, Inc.	442,610
Redwood Securities Group Inc.	442,610
Sanders Morris Harris	442,610
Santander Securities	442,610
Stephens Inc.	442,610
Stifel, Nicolaus & Company, Incorporated	442,610
Sturdivant & Co., Inc.	442,610
Tucker Anthony Incorporated	442,610
The Williams Capital Group, L.P.	442,610
Total	280,000,000

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of Class A common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 28,000,000 additional shares of our Class A common stock at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of Class A common stock.

The underwriters propose to offer the shares of Class A common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of $0.4844 per share. The underwriters and selling group members may allow a discount of $0.10 per share on sales to other broker/dealers. After the initial public offering the representatives may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we will pay:

	Underwriting Discounts and Commissions		Expenses	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Per Share	$ 0.8471	$ 0.8471	$ 0.0300	$ 0.0273
Total	$237,181,000	$260,899,100	$8,400,000	$8,400,000

The underwriters have agreed to pay expenses related to meetings with institutional investors in connection with this offering.

We and Philip Morris have agreed that we and Philip Morris will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 relating to, any shares of our Class A common stock, any shares of our Class B common stock or any securities convertible into or exchangeable or exercisable for any shares of our Class A or Class B common stock, or, in the case of Philip Morris, enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our Class A or Class B common stock, or publicly announce or disclose the intention to make any offer, sale, pledge, disposition or filing, or, in the case of Philip Morris, to enter into any transaction, swap, hedge or other arrangement, without the prior written consent of Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as representatives of the underwriters, for a period of 180 days after the date of this prospectus. The following exceptions to the lock-up apply in the case of Kraft:

- issuances of Class A common stock pursuant to the conversion, if any, during the 180 day period of our Class B common stock that is outstanding on the date of this prospectus;

- grants of employee stock options or stock appreciation rights with respect to Class A common stock pursuant to the terms of a plan described in this prospectus or otherwise described in this prospectus;

- issuances of Class A common stock pursuant to the exercise of any employee stock options granted pursuant to the terms of a plan described in this prospectus;

- issuances of Class A common stock pursuant to any of our employee benefit plans described in this prospectus or our dividend reinvestment plan;

- issuances of Class A common stock in connection with the merger with or acquisition of another company or the acquisition of the assets or property of a company and the related entry into a merger or acquisition agreement, so long as recipients of the Class A common stock agree to be bound by the lock-up restrictions described in this prospectus; and

- the public announcement and related filings of registration statements with respect to any of these issuances;

however, if we are unable to obtain signed, written lock-up agreements from the recipients of Class A common stock in connection with a merger or acquisition as described in the fifth bullet point above, then we may only enter into a merger or acquisition agreement, make a public announcement of the transaction and make the related filing of a registration statement but we may not make the related issuance of our Class A common stock.

The following exceptions to the lock-up apply in the case of Philip Morris:

- grants of employee stock options with respect to our Class A common stock as described in this prospectus; and

- issuances of our Class A common stock pursuant to the exercise of employee stock options as described in this prospectus.

Our senior officers and the senior officers of Philip Morris and its subsidiaries who are purchasing Class A common stock in this offering have agreed that they will not offer, sell, pledge or otherwise dispose of any shares of our Class A common stock acquired by them from among the shares reserved for sales to employees, enter into any transaction that would have the same effect or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of their ownership of our Class A common stock acquired by them from among the reserved shares, whether any of these transactions are to be settled by delivery of the Class A common stock, in cash or otherwise, or publicly announce or disclose the intention to make any offer, sale, pledge or disposition of Class A common stock acquired by them from among the reserved shares, or to enter into any transaction, swap, hedge or other arrangement, without the prior written consent of Credit Suisse First Boston Corporation and Salomon Smith Barney Inc. as representatives of the underwriters, for a period of 180 days after the date of this prospectus, except that these officers may make gifts of the shares so long as the recipients of the shares agree to be bound by the lock-up restrictions described in this paragraph.

The underwriters have reserved for sale at the initial public offering price up to 8,400,000 shares of our Class A common stock for employees who have expressed an interest in purchasing Class A common stock in the offering. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

We have agreed to indemnify the underwriters, and the underwriters have agreed to indemnify us, against some liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that may be required to be made in that respect.

Our shares have been authorized for listing on the New York Stock Exchange under the symbol "KFT." The underwriters have undertaken to sell shares of our Class A common stock to a minimum of 2,000 beneficial owners in lots of 100 or more shares to meet the New York Stock Exchange distribution requirements for trading.

Prior to this offering, there has been no public market for our Class A common stock. The initial public offering price for the shares was determined by negotiations between us and the representatives. Among the factors considered in determining the initial public offering price were:

- our record of operations;
- our current financial condition;
- our future prospects;
- our markets;
- the economic conditions in and future prospects for the industry in which we compete;
- our management; and
- prevailing general conditions in the equity securities markets, including market valuations of publicly traded companies we considered comparable to us.

There can be no assurance, however, that the prices at which our shares will sell in the public market after this offering will not be lower than the price at which our shares are sold by the underwriters or that an active trading market in our Class A common stock will develop and continue after this offering.

In connection with the offering, the representatives, on behalf of the underwriters, may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934:

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing shares in the open market.
- Syndicate covering transactions involve purchases of our Class A common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other

things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when our Class A common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our Class A common stock or preventing or retarding a decline in the market price of our Class A common stock. As a result, the price of our Class A common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format, from which you can review a "Meet the Management of Kraft" presentation through an embedded hyperlink--click here for "Meet the Management of Kraft" presentation--will be made available on www.kraftipo.com, www.csfb.com/ipo/us/ and www.csfbdirect.com. A description of this "Meet the Management of Kraft" presentation is included in an appendix to this prospectus. A prospectus in electronic format may be made available on the websites maintained by one or more of the other underwriters participating in this offering.

The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that will make Internet distributions on the same basis as other allocations. Credit Suisse First Boston Corporation may effect an online distribution through its affiliate, CSFBdirect Inc., an online broker dealer, as a selling group member. In addition, Morgan Stanley DW Inc., an affiliate of Morgan Stanley & Co. Incorporated, through Morgan Stanley Online, its online service, may be a member of the syndicate and engage in electronic offers, sales and distribution of the shares being offered.

The underwriters have informed us that they do not expect sales to discretionary accounts to exceed 5% of the shares of Class A common stock being offered.

Deutsche Banc Alex. Brown Inc. will assume the risk of any unsold allotment that would otherwise be purchased by Utendahl Capital Partners, L.P.

The representatives and some of the underwriters have performed investment banking and advisory services for us and Philip Morris from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us and our affiliates in the ordinary course of their business. Banks affiliated with the underwriters participating in this offering are lenders under Philip Morris' credit facilities. In connection with the acquisition of Nabisco, Philip Morris entered into a $9.0 billion, 364-day revolving credit agreement, expiring in October 2001. Philip Morris may assign this credit agreement to us following this offering upon fulfillment of conditions. Credit Suisse First Boston, New York Branch, an affiliate of Credit Suisse First Boston Corporation and The Chase Manhattan Bank, an affiliate of J.P. Morgan Securities Inc., acted as administrative agents, and Citibank, N.A., an affiliate of Salomon Smith Barney Inc., and Deutsche Bank AG, New York Branch and/or Deutsche Bank AG, Cayman Islands Branch, an affiliate of Deutsche Banc Alex. Brown Inc., acted as co-syndication agents in connection with this credit facility. These companies received customary fees for their services.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of our Class A common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of Class A common stock are made. Any resale of our Class A common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of our Class A common stock.

Representations of Purchasers

By purchasing our Class A common stock in Canada and accepting a purchase confirmation, a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase our Class A common stock without the benefit of a prospectus qualified under those securities laws;

- where required by law, that the purchaser is purchasing as principal and not as agent; and

- the purchaser has reviewed the text above under "Resale Restrictions."

Rights of Action (Ontario Purchasers)

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the United States federal securities laws.

Enforcement of Legal Rights

All of the issuer's directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or such persons in Canada or to enforce a judgment obtained in Canadian courts against such issuer or persons outside of Canada.

Notice to British Columbia Residents

A purchaser of Class A common stock to whom the Securities Act (British Columbia) applies is advised that the purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any Class A common stock acquired by the purchaser in this offering. The report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one report must be filed for Class A common stock acquired on the same date and under the same prospectus exemption.

Taxation and Eligibility for Investment

Canadian purchasers of our Class A common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in our Class A common stock in their particular circumstances and about the eligibility of our Class A common stock for investment by the purchaser under relevant Canadian legislation.

VALIDITY OF CLASS A COMMON STOCK

The validity of our Class A common stock offered hereby and other legal matters will be passed upon for us by Hunton & Williams, New York, New York. The validity of our Class A common stock offered hereby will be passed upon for the underwriters by Simpson Thacher & Bartlett, New York, New York. Simpson Thacher & Bartlett acts as counsel from time to time in matters for some subsidiaries of Philip Morris.

EXPERTS

The combined financial statements of Kraft at December 31, 1999 and 2000 and for each of the three years in the period ended December 31, 2000 included in this prospectus and the related financial statement schedule included elsewhere in the registration statement have been so included in reliance on the reports of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Nabisco at December 31, 1998 and 1999 and for each of the three years in the period ended December 31, 1999 included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission, Washington, D.C. 20549, a registration statement on Form S-l under the Securities Act of 1933, with respect to our Class A common stock offered hereby. This prospectus, which forms a part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. Some items are omitted in accordance with the rules and regulations of the SEC. For further information about us and our common stock, we refer you to the registration statement and the exhibits and schedules to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document filed as an exhibit are qualified in all respects by reference to the actual text of the exhibit. You may read and copy the registration statement, including the exhibits and schedules to the registration statement, at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov, from which you can electronically access the registration statement, including the exhibits and schedules to the registration statement.

As a result of this offering, we will become subject to the full informational requirements of the Securities Exchange Act of 1934. We will fulfill our obligations with respect to those requirements by filing periodic reports and other information with the SEC. We intend to furnish our shareholders with annual reports containing combined financial statements audited by an independent public accounting firm.

INDEX TO FINANCIAL STATEMENTS

REPORT OF PRICEWATERHOUSECOOPERS LLP, INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholder of
KRAFT FOODS INC. AND SUBSIDIARIES:

In our opinion, the accompanying combined balance sheets and the related combined statements of earnings, shareholder's equity and cash flows present fairly, in all material respects, the combined financial position of Kraft Foods Inc. and its subsidiaries (the "Company") at December 31, 1999 and 2000, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
January 29, 2001

KRAFT FOODS INC. AND SUBSIDIARIES

COMBINED BALANCE SHEETS
(in millions of dollars)

	At December 31, 1999	At December 31, 2000
ASSETS		
Cash and cash equivalents	$ 95	$ 191
Receivables (less allowances of $100 and $152)	2,755	3,231
Inventories:		
Raw materials	1,158	1,175
Finished product	1,405	1,866
	2,563	3,041
Deferred income tax benefits	356	504
Other current assets	121	185
Total current assets	5,890	7,152
Property, plant and equipment, at cost:		
Land and land improvements	272	419
Buildings and building equipment	2,395	2,949
Machinery and equipment	6,851	8,858
Construction in progress	573	816
	10,091	13,042
Less accumulated depreciation	3,565	3,637
	6,526	9,405
Goodwill and other intangible assets (less accumulated amortization of $5,652 and $6,100)	15,296	31,584
Prepaid pension assets	2,254	2,623
Assets held for sale		276
Other assets	370	1,031
TOTAL ASSETS	$30,336	$52,071
LIABILITIES AND SHAREHOLDER'S EQUITY		
Short-term borrowings	$ 42	$ 146
Current portion of long-term debt	63	713
Due to parent and affiliates	688	865
Accounts payable	1,561	1,971
Accrued liabilities:		
Marketing	1,310	1,601
Employment costs	454	625
Other	968	1,411
Income taxes	287	258
Total current liabilities	5,373	7,590
Long-term debt	433	2,695
Deferred income taxes	1,145	1,446
Accrued postretirement health care costs	1,239	1,867
Notes payable to parent and affiliates	6,602	21,407
Other liabilities	2,083	3,018
Total liabilities	16,875	38,023
Contingencies (Note 15)		
Class A common stock, no par value (275,000,000 shares issued and outstanding)		
Class B common stock, no par value (1,180,000,000 shares issued and outstanding)		
Additional paid-in capital	15,230	15,230
Earnings reinvested in the business		992
Accumulated other comprehensive losses (primarily currency translation adjustments)	(1,769)	(2,174)
Total shareholder's equity	13,461	14,048
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$30,336	$52,071

See notes to combined financial statements.

KRAFT FOODS INC. AND SUBSIDIARIES

COMBINED STATEMENTS OF EARNINGS
(in millions of dollars, except per share data)

	For the Years Ended December 31, 1998	1999	2000
Operating revenue	$27,311	$26,797	$26,532
Cost of sales	15,544	14,573	13,917
Gross profit	11,767	12,224	12,615
Marketing, administration and research costs	7,688	8,106	8,068
Amortization of goodwill	544	539	535
Operating income	3,535	3,579	4,012
Interest and other debt expense, net	536	539	597
Earnings before income taxes	2,999	3,040	3,415
Provision for income taxes	1,367	1,287	1,414
Net earnings	$ 1,632	$ 1,753	$ 2,001
Per share data:			
Basic earnings per share	$ 1.12	$ 1.20	$ 1.38
Diluted earnings per share	$ 1.12	$ 1.20	$ 1.38

See notes to combined financial statements.

KRAFT FOODS INC. AND SUBSIDIARIES

COMBINED STATEMENTS OF SHAREHOLDER'S EQUITY

For the Years Ended December 31, 1998, 1999 and 2000
(in millions of dollars)

	Class A and B Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses: Currency Translation Adjustments	Accumulated Other Comprehensive Losses: Other	Accumulated Other Comprehensive Losses: Total	Total Shareholder's Equity
Balances, January 1, 1998	$ --	$17,033	$ --	$(1,272)	$ --	$(1,272)	$15,761
Comprehensive earnings:							
Net earnings			1,632				1,632
Other comprehensive losses, net of income taxes:							
Currency translation adjustments				(77)		(77)	(77)
Additional minimum pension liability					(10)	(10)	(10)
Total other comprehensive losses							(87)
Total comprehensive earnings							1,545
Cash dividends declared		(540)	(1,632)				(2,172)
Balances, December 31, 1998	--	16,493	--	(1,349)	(10)	(1,359)	15,134
Comprehensive earnings:							
Net earnings			1,753				1,753
Other comprehensive losses, net of income taxes:							
Currency translation adjustments				(392)		(392)	(392)
Additional minimum pension liability					(18)	(18)	(18)
Total other comprehensive losses							(410)
Total comprehensive earnings							1,343
Cash dividends declared		(1,263)	(1,753)				(3,016)
Balances, December 31, 1999	--	15,230	--	(1,741)	(28)	(1,769)	13,461
Comprehensive earnings:							
Net earnings			2,001				2,001
Other comprehensive losses, net of income taxes:							
Currency translation adjustments				(397)		(397)	(397)
Additional minimum pension liability					(8)	(8)	(8)
Total other comprehensive losses							(405)
Total comprehensive earnings							1,596
Cash dividends declared			(1,009)				(1,009)
Balances, December 31, 2000	$ --	$15,230	$ 992	$(2,138)	$(36)	$(2,174)	$14,048

See notes to combined financial statements.

KRAFT FOODS INC. AND SUBSIDIARIES

COMBINED STATEMENTS OF CASH FLOWS
(in millions of dollars)

	For the Years Ended December 31,		
	1998	1999	2000
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net earnings	$ 1,632	$ 1,753	$ 2,001
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	1,038	1,030	1,034
Deferred income tax provision	337	151	245
Gains on sales of businesses		(62)	(172)
Cash effects of changes, net of effects from acquired and divested companies:			
Receivables, net	(320)	156	204
Inventories	84	(95)	175
Accounts payable	(26)	(18)	13
Income taxes	177	127	35
Other working capital items	(491)	(137)	(195)
Increase in pension assets and postretirement liabilities, net	(57)	(205)	(215)
Other	(50)	(7)	129
Net cash provided by operating activities	2,324	2,693	3,254
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Purchase of Nabisco, net of acquired cash			(15,159)
Purchases of other businesses, net of acquired cash	(17)	(14)	(365)
Proceeds from sales of businesses	16	175	300
Capital expenditures	(841)	(860)	(906)
Other	79	30	(8)
Net cash used in investing activities	(763)	(669)	(16,138)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Net repayment of short-term borrowings	(12)	(22)	(816)
Long-term debt proceeds	80	78	87
Long-term debt repaid	(195)	(111)	(112)
Proceeds from issuance of notes payable to parent and affiliates	1,111	768	15,000
Repayment of notes payable to parent and affiliates		(178)	(124)
(Decrease) increase in amounts due to parent and affiliates	(377)	450	143
Dividends paid	(2,172)	(3,016)	(1,009)
Other			(187)
Net cash (used in) provided by financing activities	(1,565)	(2,031)	12,982
Effects of exchange rate changes on cash and cash equivalents	(6)	(10)	(2)
Cash and cash equivalents:			
(Decrease) increase	(10)	(17)	96
Balance at beginning of year	122	112	95
Balance at end of year	$ 112	$ 95	$ 191
Cash paid:			
Interest	$ 522	$ 533	$ 605
Income taxes	$ 807	$ 1,022	$ 1,051

See notes to combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Background and Basis of Presentation:

Kraft Foods Inc. (the "Company"), a wholly-owned subsidiary of Philip Morris Companies Inc. ("Philip Morris"), was incorporated in 2000 in the Commonwealth of Virginia. Following the Company's formation, Philip Morris transferred to the Company its ownership interest in Kraft Foods North America, Inc., a Delaware corporation, through a capital contribution. In addition, during 2000, Philip Morris transferred management responsibility for its food businesses in Latin America to Kraft Foods North America, Inc. and its wholly-owned subsidiary, Kraft Foods International, Inc. The legal transfer of the Latin American food businesses began in 2000 and is expected to be completed in 2001. The Company, together with its subsidiaries, is engaged in the manufacture and sale of retail packaged foods in the United States, Canada, Europe, Latin America and Asia Pacific.

On December 11, 2000, the Company acquired all of the outstanding shares of Nabisco Holdings Corp. ("Nabisco") for $55 per share in cash. See Note 5, Acquisitions, for a complete discussion of this transaction.

Basis of presentation:

The combined financial statements include the Company and its subsidiaries, as well as the Latin American food businesses, the managerial responsibility for which was transferred from Philip Morris to the Company during 2000. The combined financial statements have been prepared to present the combined financial position and results of operations for the food businesses owned by Philip Morris, in contemplation of a potential initial public offering of less than 20% of the Company's common stock. Due to common control and ownership, the combined financial statements have been prepared as if the Latin American food entities, owned directly or indirectly by Philip Morris, were combined on January 1, 1996, in a manner similar to a pooling of interests. The combined financial statements have been prepared using historical results of operations and the historical basis of the assets and liabilities.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of operating revenue and expenses during the reporting periods. Actual results could differ from those estimates. The Company's operating subsidiaries report year-end results as of the Saturday closest to December 31 each year. This resulted in fifty-three weeks of operating results in the Company's combined statement of earnings for the year ended December 31, 2000.

Note 2. Summary of Significant Accounting Policies:

Cash and cash equivalents:

Cash equivalents include demand deposits with banks and all highly liquid investments with original maturities of three months or less.

Inventories:

Inventories are stated at the lower of cost or market. The last-in, first-out method is used to cost substantially all domestic inventories. The cost of other inventories is principally determined by the average cost method.

Impairment of long-lived assets:

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company performs undiscounted operating cash flow analyses to determine if an impairment exists. If an impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

Depreciation, amortization and goodwill valuation:

Property, plant and equipment are stated at historical cost and depreciated by the straight-line method over the lives of the assets. Machinery and equipment are depreciated over periods ranging from 3 to 20 years and buildings and building improvements over periods up to 40 years. Goodwill and other intangible assets substantially comprise brand names purchased through acquisitions. In consideration of the long histories of these brands, goodwill and other intangible assets associated with them are amortized on the straight-line method over 40 years. The Company periodically evaluates the recoverability of its intangible assets and measures any impairment by comparison with estimated undiscounted operating cash flows.

Advertising costs:

Advertising costs are expensed as incurred.

Revenue recognition:

The Company recognizes operating revenue upon shipment of goods when title and risk of loss pass to customers. Staff Accounting Bulletin No. 101, "Revenue Recognition," issued by the Securities and Exchange Commission, did not have an impact on the Company's operating revenue for any of the years presented.

During 2000, the Emerging Issues Task Force issued EITF No. 00-14, "Accounting for Certain Sales Incentives." EITF Issue No. 00-14 addresses the recognition, measurement and statement of earnings classification for certain sales incentives and will be effective in the second quarter of 2001. As a result, certain items previously included in marketing, administration and research costs on the combined statements of earnings will be recorded as reductions of operating revenue. Due to anticipated additional consideration of EITF No. 00-14 by the EITF, the Company is currently unable to quantify the impact of adoption. The Company presently expects that adoption or subsequent application of EITF No. 00-14 will not have a material effect on its financial position or results of operations. Upon adoption, prior period amounts will be reclassified to conform to the new requirements. In addition, the EITF issued EITF No. 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF No. 00-10 addresses the statement of earnings classification of shipping and handling costs billed to customers and was effective for the fourth quarter of 2000. The Company classifies the cost of shipping and handling in cost of sales. EITF No. 00-10 did not have an impact on the combined financial statements of the Company for any of the years presented.

Hedging instruments:

The Company utilizes certain financial instruments to manage its commodity, foreign currency and interest rate exposures. The Company does not engage in speculative use of these financial instruments. For a financial instrument to qualify as a hedge, the Company must be exposed to price, currency or interest rate risk, and the financial instrument must reduce the exposure and be designated as a hedge. Additionally, for hedges of anticipated transactions, the significant characteristics and expected terms of the anticipated transaction must be identified, and it must be probable that the anticipated transaction will occur. Financial instruments qualifying for hedge accounting must maintain a high correlation between the hedging instrument and the item being hedged, both at inception and throughout the hedged period.

Commodity futures and forward contracts are used by the Company to procure raw materials, primarily coffee, cocoa, sugar, milk, cheese, wheat and corn. Commodity futures and options are also used to hedge the price of certain commodities, primarily coffee and cocoa. Realized gains and losses on commodity futures, forward contracts and options are deferred as a component of inventories and are recognized when related raw material costs are charged to cost of sales. If the anticipated transaction were not to occur, any gain or loss would be recognized in earnings currently.

The Company uses forward contracts and options to mitigate its foreign currency exposure. The corresponding gains and losses on those contracts are deferred and included in the basis of the underlying hedged transactions when settled. Options are used to hedge anticipated transactions. Option premiums are recorded generally as other current assets on the combined balance sheets and amortized to interest and other debt expense, net, over the lives of the related options. The intrinsic values of options are recognized as adjustments to the related hedged items. If anticipated transactions were not to occur, any gain or loss would be recognized in earnings currently.

The Company uses interest rate swaps to hedge certain interest rate exposures. The differential to be paid or received is accrued and recognized as interest expense. Any premium paid or received is amortized on a straight-line basis over the duration of the hedged instrument. If an interest rate swap agreement is terminated prior to maturity, the realized gain or loss is recognized over the remaining life of the agreement if the hedged amount remains outstanding, or immediately if the underlying hedged exposure does not remain outstanding. If the underlying exposure is terminated prior to the maturity of the interest rate swap, the unrealized gain or loss on the related interest rate swap is recognized in earnings currently.

During 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which had an initial adoption date of January 1, 2000. During 1999, the FASB postponed the required adoption date of SFAS No. 133 until January 1, 2001. In addition, during 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amends the requirements of SFAS No. 133. These standards require that all derivative financial instruments be recorded on balance sheets at fair value as either assets or liabilities. Changes in the fair value of derivatives will be recorded each period in earnings or other comprehensive earnings, depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in other comprehensive earnings will be reclassified as earnings in the periods in which earnings are affected by the hedged item. Initial adoption of these new standards on January 1, 2001 will have an insignificant impact on the Company's combined financial position and results of operations. Since the impact of SFAS No. 133 after adoption is dependent on future market rates and outstanding derivative positions, the Company cannot determine the impact that application subsequent to January 1, 2001 will have on its combined financial position or results of operations.

Stock-based compensation:

Certain employees of the Company participate in Philip Morris' employee stock compensation plans. Philip Morris accounts for these plans in accordance with the intrinsic value-based method permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," which does not result in compensation cost.

Income taxes:

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." The accounts of the Company are included in the consolidated federal income tax return of Philip Morris. Income taxes are generally computed on a separate company basis. To the extent that foreign tax credits, capital losses and other credits generated by the Company, which cannot be utilized on a separate company basis, are utilized in Philip Morris' consolidated federal income tax return, the benefit is recognized in the calculation of the Company's provision for income taxes. The Company's provision for income taxes included in the combined statements of earnings for the years ended December 31, 1998, 1999 and 2000 were lower than provisions calculated on a separate return basis by $156 million, $107 million and $139 million, respectively. The Company makes payments to, or is reimbursed by, Philip Morris for the tax effects resulting from its inclusion in Philip Morris' consolidated federal income tax return.

Software costs:

The Company capitalizes certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use in accordance with Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which was adopted by the Company as of January 1, 1998. Capitalized software costs, which are not significant, are amortized on a straight-line basis over the estimated useful lives of the software, which do not exceed five years.

Foreign currency translation:

The Company translates the results of operations of its foreign subsidiaries using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. Currency translation adjustments are recorded as a component of shareholder's equity. Transaction gains and losses for all periods presented were not significant.

Environmental costs:

The Company is subject to laws and regulations relating to the protection of the environment. The Company provides for expenses associated with environmental remediation obligations when such amounts are probable and can be reasonably estimated. Such accruals, which are not discounted, are adjusted as new information develops or circumstances change.

While it is not possible to quantify with certainty the potential impact of actions regarding environmental remediation and compliance efforts that the Company may undertake in the future, in the opinion of management, environmental remediation and compliance costs, before taking into account any recoveries from third parties, will not have a material adverse effect on the Company's combined financial position, results of operations or cash flows.

Note 3. Related Party Transactions:

Philip Morris and certain of its affiliates provide the Company with various services, including planning, legal, treasury, accounting, auditing, insurance, human resources, office of the secretary, corporate affairs, information technology and tax services. Billings for these services, which were based on the cost to Philip Morris to provide such services, were $122 million, $165 million and $248 million for the years ended December 31, 1998, 1999 and 2000, respectively. These costs were billed and paid to Philip Morris quarterly. Although the cost of these services cannot be quantified on a stand-alone basis, management believes that the billings are reasonable based on the level of support provided by Philip Morris and its affiliates, that they reflect all services provided and that, in the aggregate, the terms are at least as favorable as the Company could have obtained from unrelated third parties. The effects of these transactions are included in other operating cash flows in the Company's combined statements of cash flows. In 2001, the Company intends to enter into a formal agreement with Philip Morris providing for a continuation of these services, the cost of which is expected to increase approximately $50 million as Philip Morris provides additional information technology and financial services previously performed internally. Under the provisions of the 2001 agreement, assessments will be paid monthly.

In addition, the Company's daily net cash or overdraft position is transferred to Philip Morris or a European subsidiary of Philip Morris. The Company pays or receives interest based upon the applicable commercial paper rate or the London Interbank Offered Rate, on the net amount payable to, or receivable from, Philip Morris or its European subsidiary. The amounts due to parent and affiliates consisted primarily of amounts payable for cash transactions at December 31, 1999 and 2000.

The Company also has long-term notes payable to its parent, Philip Morris, and its affiliates as follows:

	At December 31, 1999	At December 31, 2000
	(in millions)	
Notes payable in 2002, interest at 7.75%.................		$11,000
Notes payable in 2002, interest at 7.40%.................		4,000
Notes payable in 2009, interest at 7.00%.................	$5,000	5,000
Swiss franc notes payable in 2008, interest at 4.58%.....	880	715
Swiss franc notes payable in 2006, interest at 3.58%.....	722	692
	$6,602	$21,407

The two notes issued in 2000, maturing in 2002, were related to the financing for the Nabisco acquisition and were at market interest rates available to Philip Morris for debt with matching maturities. During 2001, the Company intends to undertake an IPO of less than 20% of its common stock. If completed as anticipated, the IPO proceeds will be used to retire a portion of the notes payable to Philip Morris.

Based on interest rates available to the Company for issuances of debt with similar terms and remaining maturities, the aggregate fair values of the Company's long-term notes payable to Philip Morris and its affiliates at December 31, 1999 and 2000 were $6,036 million and $21,357 million, respectively. The fair values of the Company's current amounts due to parent and affiliates approximate carrying amounts.

The amounts reported as due to parent and affiliates and as long-term debt as of December 31, 1999 and 2000, as well as borrowings during each of the three years in the period ended December 31, 2000, represent the amounts required to finance the Company's operations on a stand alone basis.

Note 4. Divestitures:

During 1999, the Company sold several small international and domestic food businesses. The aggregate proceeds received in these transactions were $175 million, on which the Company recorded pre-tax gains of $62 million.

During 2000, the Company sold a French confectionery business for proceeds of $251 million, on which a pre-tax gain of $139 million was recorded. Several small international and domestic food businesses were also sold in 2000. The aggregate proceeds received in these transactions were $300 million, on which the Company recorded pre-tax gains of $172 million.

The operating results of the businesses sold were not material to the Company's combined operating results in any of the periods presented. Pre-tax gains on these divestitures were included in marketing, administration and research costs on the Company's combined statements of earnings.

Note 5. Acquisitions:

Nabisco:

On December 11, 2000, the Company acquired all of the outstanding shares of Nabisco for $55 per share in cash. The purchase of the outstanding shares, retirement of employee stock options and other payments totaled approximately $15.2 billion. In addition, the acquisition included the assumption of approximately $4.0 billion of existing Nabisco debt. The Company financed the acquisition through the issuance of two long-term notes payable to Philip Morris totaling $15.0 billion and short-term intercompany borrowings of $255 million. The acquisition has been accounted for as a purchase. Nabisco's balance sheet has been consolidated with the Company as of December 31, 2000; however, Nabisco's earnings subsequent to December 11, 2000 have not been included in the combined operating results of the Company since such amounts were insignificant to combined operating results for the year ended December 31, 2000. The Company's interest cost of $65 million associated with acquiring Nabisco has been included in interest and other debt expense, net, on the Company's combined statement of earnings for the year ended December 31, 2000.

In order to address concerns raised by United States trade regulation authorities, Nabisco sold its domestic dry packaged dessert and baking powder businesses, as well as its intense mints and gum businesses in December 2000. Since these businesses were sold at fair value, no gain or loss related to these sales was recorded in the Company's combined statement of earnings for the year ended December 31, 2000. In addition, the Company has announced that it will sell Nabisco's Canadian grocery business. The Company also currently plans to sell a number of Nabisco businesses that do not align strategically with the Company's food operations. These businesses have been accounted for in accordance with EITF No. 87-11 "Allocation of Purchase Price to Assets to be Sold." Accordingly, the estimated selling prices of these businesses less costs of disposal, plus the estimated results of operations through anticipated sales dates, total $276 million and have been segregated as assets held for sale on the Company's combined balance sheet at December 31, 2000. It is expected that these assets will be disposed of within one year from the acquisition date. Future operating results of these businesses through the sales dates will be excluded from the Company's combined net earnings.

The excess of the purchase price over the estimated fair value of the net assets purchased was approximately $16.8 billion and will be amortized over 40 years by the straight-line method. The allocation of excess purchase price is based upon preliminary estimates and assumptions and is subject to revision when appraisals and integration plans have been finalized. Accordingly, revisions to the allocation, which may be significant, will be reported in a future period as increases or decreases to amounts reported as goodwill, other intangible assets (including trade names), deferred income taxes and amortization of goodwill. Excess purchase price has been allocated to reflect current estimates as follows:

	At December 31, 2000
	Increase (Decrease) to Excess Purchase Price
	(in millions)
Purchase price	$15,254
Historical value of assets acquired and liabilities assumed	(1,271)
Excess of purchase price over assets acquired and liabilities assumed at the date of acquisition	16,525
Adjustments for allocation of purchase price:	
Inventories	(4)
Property, plant and equipment	(45)
Assets held for sale	(59)
Other intangibles (primarily workforce)	(100)
Debt	70
Other, principally benefit plans	561
Deferred income taxes	(176)
Unallocated excess purchase price at December 31, 2000	$16,772

In addition to the above, the Company is evaluating plans to close a number of Nabisco domestic and international facilities, pending the completion of logistical studies. It is currently estimated that the closure of these facilities could result in additional severance and other exit liabilities (and a corresponding increase to excess purchase price) of $500 million to $600 million. These amounts will be recorded on the combined balance sheet as adjustments to excess purchase price when plans have been finalized and announced to employees.

The integration of Nabisco into the operations of the Company may result in the closure of a number of the Company's existing plants. These actions could result in charges of $200 million to $300 million, which will be recorded as expense in the Company's combined statement of earnings in the period during which plans are finalized and announced.

Had the acquisition of Nabisco occurred at the beginning of 1999 and 2000, pro forma operating revenue, net earnings, basic earnings per share and diluted earnings per share, after giving effect to the previously discussed preliminary allocation of excess purchase price, Nabisco businesses sold or to be sold and the interest expense on acquisition borrowings, would have been as follows:

	For the Years Ended December 31, 1999	For the Years Ended December 31, 2000
	(in millions, except per share data, unaudited)	
Operating revenue	$34,339	$34,679
Net earnings	1,116	1,404
Basic earnings per share	0.77	0.96
Diluted earnings per share	0.77	0.96

The pro forma results do not give effect to any synergies expected to result from the merger of Nabisco's operations with those of the Company. Accordingly, the pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been consummated at the beginning of each year, nor are they necessarily indicative of future combined operating results.

The Nabisco condensed balance sheet at December 31, 2000, including the previously discussed preliminary allocations of excess purchase price, has been included in the Company's combined balance sheet as follows:

	At December 31, 2000
	(in millions)
Assets	
Current assets	$ 1,840
Property, plant and equipment	2,851
Goodwill	16,772
Other assets	909
Total assets	$22,372
Liabilities	
Current liabilities	$ 2,242
Long-term debt	2,392
Other long-term liabilities	1,464
Total liabilities	$ 6,098

In 2001, the Company plans to undertake an IPO of less than 20% of its common stock. If completed as anticipated, the IPO proceeds will be used to retire a portion of the debt incurred as a result of the acquisition of Nabisco.

Other acquisitions:

During 1998 and 1999, the Company purchased several small North American and international food businesses for $17 million and $14 million, respectively. The effects of these acquisitions were not material to the Company's combined financial position or results of operations in any of the periods presented.

During 2000, the Company purchased the outstanding common stock of Balance Bar Co., a maker of energy and nutrition snack products. In a separate transaction, the Company also acquired Boca Burger, Inc., a manufacturer and marketer of soy-based meat alternatives. The total cost of these acquisitions was $358 million. The effects of these and other smaller acquisitions were not material to the Company's combined financial position or results of operations.

Note 6. Inventories:

The cost of approximately 46% and 56% of inventories in 1999 and 2000, respectively, was determined using the LIFO method. The stated LIFO amounts of inventories were approximately $102 million and $171 million higher than the current cost of inventories at December 31, 1999 and 2000, respectively.

Note 7. Short-Term Borrowings and Borrowing Arrangements:

The Company's short-term borrowings and related average interest rates consisted of the following:

	At December 31,			
	1999		2000	
	Amount Outstanding	Average Year-end Rate	Amount Outstanding	Average Year-end Rate
	(in millions)			
Bank loans	$42	19.6%	$146	9.2%

The Company's short-term borrowings at December 31, 1999 were in certain high interest rate Central and Eastern European markets and were used primarily for working capital requirements.

The fair values of the Company's short-term borrowings at December 31, 1999 and 2000, based upon current market interest rates, approximate the amounts disclosed above.

The Company and its subsidiaries maintain credit facilities with a number of lending institutions, amounting to approximately $430 million at December 31, 2000. Approximately $284 million of these facilities were unused at December 31, 2000. These facilities were used primarily to meet the working capital requirements of certain international subsidiaries. In addition, in connection with the acquisition of Nabisco, Philip Morris entered into a $9.0 billion 364-day revolving credit agreement. This agreement enables Philip Morris to transfer to the Company this revolving credit line and any outstanding balances, provided certain conditions are met, after the consummation of an IPO of the Company's common stock. At December 31, 2000, Philip Morris had no borrowings under the agreement, which expires during October 2001.

Note 8. Long-Term Debt:

The Company's long-term debt consisted of the following:

	At December 31,	
	1999	2000
	(in millions)	
Notes, 6.00% to 7.86% (average effective rate 6.68%), due through 2035		$2,751
Debentures, 6.00% to 8.50% (average effective rate 10.45%), $465 million face amount, due through 2017	$391	401
Foreign currency obligations	68	173
Other	37	83
	496	3,408
Less current portion of long-term debt	(63)	(713)
	$433	$2,695

Aggregate maturities of long-term debt are as follows:

	(in millions)
2001	$713
2002	443
2003	383
2004	95
2005	736
2006-2010	469
Thereafter	633

Based on market quotes, where available, or interest rates then currently available to the Company for issuance of debt with similar terms and remaining maturities, the aggregate fair value of the Company's long-term debt, including the current portion of long-term debt, at December 31, 1999 and 2000 was $552 million and $3,459 million, respectively.

Note 9. Capital Stock, Stock Plans and Earnings per Share:

Capital stock:

The Company's articles of incorporation authorize 3.0 billion shares of Class A common stock, 2.0 billion shares of Class B common stock and 500 million shares of preferred stock. Philip Morris presently holds 275 million Class A common shares and 1.18 billion Class B common shares of the Company, representing all of the issued and outstanding common shares of the Company. There are no preferred shares issued and outstanding. Class A common shares are entitled to one vote each while Class B common shares are entitled to ten votes each. During the three years ended December 31, 2000, the Company did not have any stock option or other stock benefit plans.

Stock plans:

Certain employees of the Company participate in Philip Morris' stock compensation plans. Philip Morris accounts for the plans in accordance with the intrinsic value-based method permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," which does not result in compensation cost. Had compensation cost for stock option awards under Philip Morris' plans been determined by using the fair value at the grant date, the Company's net earnings and earnings per share (basic and diluted) would have been $1,594 million and $1.10 for the year ended December 31, 1998; $1,713 million and $1.18 for the year ended December 31, 1999; and $1,947 million and $1.34 for the year ended December 31, 2000. The foregoing impact of compensation cost was determined using a modified Black-Scholes methodology and the following assumptions:

	Risk-Free Interest Rate	Weighted Average Expected Life	Expected Volatility	Expected Dividend Yield	Fair Value at Grant Date
1998...	5.52%	5 years	23.83%	4.03%	$7.78
1999...	5.81	5	26.06	4.41	8.21
2000...	6.58	5	31.71	9.00	3.19

The Company's employees held options to purchase the following number of shares of Philip Morris' stock: 32,497,459 shares at an average exercise price of $32.37 per share at December 31, 1998; 39,911,082 shares at an average exercise price of $34.34 per share at December 31, 1999; and 56,977,329 shares at an average exercise price of $30.46 per share at December 31, 2000. Of these amounts, the following were exercisable at each date: 24,757,659 at an average exercise price of $30.07 per share at December 31, 1998; 31,071,681 at an average exercise price of $32.75 per share at December 31, 1999; and 38,444,963 at an average exercise price of $34.82 per share at December 31, 2000.

In addition, certain of the Company's employees held shares of Philip Morris restricted stock and rights to receive shares of stock, giving these employees in most instances all of the rights of shareholders, except that they may not sell, assign, pledge or otherwise encumber such shares and rights. Such shares are subject to forfeiture if certain employment conditions are not met. During 1998 and 2000, Philip Morris granted to certain of the Company's U.S. employees restricted stock of 128,000 shares and 2,113,570 shares, respectively. Philip Morris also issued to certain of the Company's non-U.S. employees rights to receive 68,000 and 683,790 equivalent shares during 1998 and 2000, respectively. During 1999, there were no restricted stock grants issued to the Company's employees. At December 31, 2000, restrictions on the stock, net of forfeitures, lapse as follows: 2001--21,188 shares; 2002--2,707,822 shares; 2003--177,040 shares and thereafter--12,000 shares. The fair value of the restricted shares and rights at the date of grant is amortized to expense ratably over the restriction period through a charge from Philip Morris. In 1998, 1999 and 2000, the Company recorded compensation expense related to restricted stock awards of $2 million, $3 million and $23 million, respectively.

Philip Morris does not currently intend to issue additional Philip Morris stock compensation to the Company's employees. In future periods, the Company intends to issue its own stock compensation to its employees in accordance with a plan expected to be approved in 2001.

Earnings per share:

Basic and diluted earnings per share are calculated on the total shares outstanding, which was 1.455 billion. Prior period earnings per share amounts reflect the current capital structure of the Company.

Note 10. Pre-tax Earnings and Provision for Income Taxes:

Pre-tax earnings and provision for income taxes consisted of the following:

	For the Years Ended December 31,		
	1998	1999	2000
	(in millions)		
Pre-tax earnings:			
United States	$2,020	$1,990	$2,188
Outside United States	979	1,050	1,227
Total pre-tax earnings	$2,999	$3,040	$3,415
Provision for income taxes:			
United States federal:			
Current	$ 430	$ 543	$ 572
Deferred	290	164	218
	720	707	790
State and local	169	144	120
Total United States	889	851	910
Outside United States:			
Current	431	449	477
Deferred	47	(13)	27
Total outside United States	478	436	504
Total provision for income taxes	$1,367	$1,287	$1,414

At December 31, 2000, applicable United States federal income taxes and foreign withholding taxes have not been provided on approximately $972 million of accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested. If these amounts were not considered permanently reinvested, additional deferred income taxes of approximately $60 million would have been provided.

The effective income tax rate on pre-tax earnings differed from the U.S. federal statutory rate for the following reasons:

	For the Years Ended December 31,		
	1998	1999	2000
U.S. federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State and local income taxes, net of federal tax benefit	3.5	3.0	2.2
Rate differences--foreign operations	2.8	(0.1)	0.1
Goodwill amortization	6.1	5.9	5.2
Other	(1.8)	(1.5)	(1.1)
Effective tax rate	45.6%	42.3%	41.4%

The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities consisted of the following:

	At December 31,	
	1999	2000
	(in millions)	
Deferred income tax assets:		
Accrued postretirement and postemployment benefits	$ 559	$ 789
Other	497	539
Total deferred income tax assets	1,056	1,328
Deferred income tax liabilities:		
Property, plant and equipment	(1,171)	(1,527)
Prepaid pension costs	(674)	(743)
Total deferred income tax liabilities	(1,845)	(2,270)
Net deferred income tax liabilities	$ (789)	$ (942)

Note 11. Segment Reporting:

The Company manufactures and markets packaged retail food products, consisting principally of beverages, cheese, snacks, convenient meals and various packaged grocery products through its North American and international food businesses. Reportable segments for the North American businesses are organized and managed principally by product category. The North American food segments are Cheese, Meals and Enhancers, which includes U.S. food service, Canadian and Mexican operations; Biscuits, Snacks and Confectionery; Beverages, Desserts and Cereals; and Oscar Mayer and Pizza. Kraft Foods North America's food service business within the United States and its businesses in Canada and Mexico are managed under the Cheese, Meals and Enhancers segment. International operations are organized and managed by geographic location. The international food segments are Europe, Middle East and Africa; and Latin America and Asia Pacific.

The Company's management reviews operating companies income to evaluate segment performance and allocate resources. Operating companies income excludes general corporate expenses from Philip Morris and amortization of goodwill. Interest and other debt expense, net and provision for income taxes are managed in conjunction with Philip Morris and, accordingly, such items are not presented by segment since they are excluded from the measure of segment profitability reviewed by management. The Company's assets, which are principally in the United States and Europe, are managed geographically. The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies.

Reportable segment data were as follows:

	For the Years Ended December 31,		
	1998	1999	2000
	(in millions)		
Operating revenue:			
Cheese, Meals and Enhancers	$ 9,322	$ 9,360	$ 9,405
Biscuits, Snacks and Confectionery	220	265	329
Beverages, Desserts and Cereals	5,039	5,074	5,266
Oscar Mayer and Pizza	3,059	3,198	3,461
Total Kraft Foods North America	17,640	17,897	18,461
Europe, Middle East and Africa	8,307	7,676	6,824
Latin America and Asia Pacific	1,364	1,224	1,247
Total Kraft Foods International	9,671	8,900	8,071
Total operating revenue	$27,311	$26,797	$26,532
Operating companies income:			
Cheese, Meals and Enhancers	$ 1,599	$ 1,658	$ 1,845
Biscuits, Snacks and Confectionery	54	73	100
Beverages, Desserts and Cereals	1,005	1,009	1,090
Oscar Mayer and Pizza	470	450	512
Total Kraft Foods North America	3,128	3,190	3,547
Europe, Middle East and Africa	884	895	1,019
Latin America and Asia Pacific	170	168	189
Total Kraft Foods International	1,054	1,063	1,208
Total operating companies income	4,182	4,253	4,755
Amortization of goodwill	(544)	(539)	(535)
General corporate expenses	(103)	(135)	(208)
Total operating income	3,535	3,579	4,012
Interest and other debt expense, net	(536)	(539)	(597)
Earnings before income taxes	$ 2,999	$ 3,040	$ 3,415

As previously noted, the Company's international operations are managed by geographic location. International food's operating revenue by consumer sector for each of the three years in the period ended December 31, 2000 is as follows:

Consumer Sector	For the Years Ended December 31, 1998	1999	2000
	(in millions)		
Snacks	$3,174	$2,999	$2,723
Beverages	4,054	3,551	3,201
Cheese	1,346	1,316	1,259
Grocery	648	664	584
Convenient Meals	449	370	304
Total	$9,671	$8,900	$8,071

During 1999, the Company's North American food business announced that it was offering voluntary retirement incentive or separation programs to certain eligible hourly and salaried employees in the United States. Employees electing to terminate employment under the terms of these programs were entitled to enhanced retirement or severance benefits. Approximately 1,100 hourly and salaried employees accepted the benefits offered by these programs and elected to retire or terminate. As a result, the Company recorded a pre-tax charge of $157 million during 1999. This charge was included in marketing, administration and research costs in the combined statement of earnings for the following segments: Cheese, Meals and Enhancers, $71 million; Oscar Mayer and Pizza, $38 million; Biscuits, Snacks and Confectionery, $2 million; and Beverages, Desserts and Cereals, $46 million. Payments of pension and postretirement benefits are made in accordance with the terms of the applicable benefit plans. Severance benefits, which were paid over a period of time, commenced upon dates of termination which ranged from April 1999 to March 2000. The program and related payments were completed during 2000. Salary and related benefit costs of employees prior to their retirement or termination date were expensed as incurred.

See Notes 4 and 5 regarding divestitures and acquisitions. The acquisition of Nabisco will primarily affect the reported results of the Biscuits, Snacks and Confectionery and the Latin America and Asia Pacific segments.

	For the Years Ended December 31,		
	1998	1999	2000
	(in millions)		
Depreciation expense:			
Cheese, Meals and Enhancers	$127	$135	$150
Beverages, Desserts and Cereals	100	102	109
Oscar Mayer and Pizza	44	49	51
Total Kraft Foods North America	271	286	310
Europe, Middle East and Africa	189	175	163
Latin America and Asia Pacific	34	30	26
Total Kraft Foods International	223	205	189
Total depreciation expense	$494	$491	$499
Capital expenditures:			
Cheese, Meals and Enhancers	$233	$246	$247
Beverages, Desserts and Cereals	171	204	193
Oscar Mayer and Pizza	141	125	148
Total Kraft Foods North America	545	575	588
Europe, Middle East and Africa	251	255	239
Latin America and Asia Pacific	45	30	79
Total Kraft Foods International	296	285	318
Total capital expenditures	$841	$860	$906

Geographic data for operating revenue, total assets and long-lived assets (which consists of all non-current assets, other than goodwill and other intangible assets and prepaid pension assets) were as follows:

	For the Years Ended December 31,		
	1998	1999	2000
	(in millions)		
Operating revenue:			
United States	$16,170	$16,540	$16,910
Europe	8,127	7,500	6,642
Other	3,014	2,757	2,980
Total operating revenue	$27,311	$26,797	$26,532

	At December 31,		
	1998	1999	2000
	(in millions)		
Total assets:			
United States	$19,243	$19,429	$40,454
Europe	9,281	8,292	7,351
Other	2,867	2,615	4,266
Total assets	$31,391	$30,336	$52,071
Long-lived assets:			
United States	$ 3,691	$ 3,904	$ 6,684
Europe	2,192	2,021	1,837
Other	974	971	2,191
Total long-lived assets	$ 6,857	$ 6,896	$10,712

The excess purchase price associated with the acquisition of Nabisco is presented above as an asset in the United States. However, the classification of excess purchase price among geographic areas may change as appraisals and integration plans are finalized.

Note 12. Benefit Plans:

The Company and its subsidiaries sponsor noncontributory defined benefit pension plans covering substantially all U.S. employees. Pension coverage for employees of the Company's non-U.S. subsidiaries is provided, to the extent deemed appropriate, through separate plans, many of which are governed by local statutory requirements. In addition, the Company's U.S. and Canadian subsidiaries provide health care and other benefits to substantially all retired employees. Health care benefits for retirees outside the United States and Canada are generally covered through local government plans.

Pension plans:

Net pension (income) cost consisted of the following:

	U. S. Plans			Non-U.S. Plans		
	For the Years Ended December 31,					
	1998	1999	2000	1998	1999	2000
	(in millions)					
Service cost	$ 74	$ 76	$ 69	$ 38	$ 40	$ 37
Interest cost	209	212	213	104	100	98
Expected return on plan assets	(420)	(511)	(523)	(89)	(97)	(103)
Amortization:						
Net gain on adoption of SFAS No. 87	(12)	(11)	(11)	(1)	(1)	(1)
Unrecognized net (gain) loss from experience differences	(2)	(15)	(36)	(2)	2	(1)
Prior service cost	6	6	7	4	4	4
Settlements	(28)	(41)	(34)			
Net pension (income) cost	$(173)	$(284)	$(315)	$ 54	$ 48	$ 34

During 1999, the Company instituted an early retirement and workforce reduction program that resulted in settlement gains, net of additional termination benefits of $41 million. In 1998 and 2000, retiring employees elected lump-sum payments, resulting in settlement gains of $28 million and $34 million, respectively.

The changes in benefit obligations and plan assets, as well as the funded status of the Company's pension plans were as follows:

	U.S. Plans		Non-U.S. Plans	
	At December 31,			
	1999	2000	1999	2000
	(in millions)			
Benefit obligation at January 1	$3,079	$2,766	$1,778	$1,740
Service cost	76	69	40	37
Interest cost	212	213	100	98
Benefits paid	(530)	(258)	(100)	(94)
Acquisitions		1,463		236
Settlements	155	11		
Actuarial (gains) losses	(231)	51	11	91
Currency			(93)	(205)
Other	5	12	4	12
Benefit obligation at December 31	2,766	4,327	1,740	1,915
Fair value of plan assets at January 1	5,937	6,282	1,213	1,314
Actual return on plan assets	818	(215)	97	103
Contributions	3	33	32	32
Benefits paid	(494)	(278)	(63)	(64)
Acquisitions		1,226		265
Currency			(53)	(121)
Actuarial gains (losses)	18	(9)	88	60
Fair value of plan assets at December 31	6,282	7,039	1,314	1,589
Excess (deficit) of plan assets versus benefit obligations at December 31	3,516	2,712	(426)	(326)
Unrecognized actuarial gains	(1,574)	(691)	(52)	(42)
Unrecognized prior service cost	48	54	30	27
Unrecognized net transition obligation	(11)		8	7
Net prepaid pension asset (liability)	$1,979	$2,075	$ (440)	$ (334)

The combined U.S. and non-U.S. pension plans resulted in a net prepaid asset of $1,539 million and $1,741 million at December 31, 1999 and 2000, respectively. These amounts were recognized in the Company's combined balance sheets at December 31, 1999 and 2000 as prepaid pension assets of $2,254 million and $2,623 million, respectively, for those plans in which plan assets exceeded their accumulated benefit obligations and as other liabilities of $715 million and $882 million at December 31, 1999 and 2000, respectively, for plans in which the accumulated benefit obligations exceeded their plan assets.

At December 31, 1999 and 2000, certain of the Company's U.S. plans were unfunded, with projected benefit and accumulated benefit obligations of $100 million and $65 million, respectively, in 1999 and $156 million and $97 million, respectively, in 2000. For certain non-U.S. plans, which have accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets were $697 million, $652 million and $46 million, respectively, as of December 31, 1999 and $639 million, $596 million and $49 million, respectively, as of December 31, 2000.

The following weighted-average assumptions were used to determine the Company's obligations under the plans:

	U.S. Plans		Non-U.S. Plans	
	1999	2000	1999	2000
Discount rate	7.75%	7.75%	6.04%	5.88%
Expected rate of return on plan assets	9.00	9.00	8.50	8.51
Rate of compensation increase	4.50	4.50	3.36	3.55

The Company and certain of its subsidiaries sponsor employee savings plans, to which the Company contributes. These plans cover certain salaried, non-union and union employees. The Company's contributions and costs are determined by the matching of employee contributions, as defined by the plans. Amounts charged to expense for defined contribution plans totaled $40 million, $41 million and $43 million in 1998, 1999 and 2000, respectively.

Postretirement benefit plans:

Net postretirement health care costs consisted of the following:

	For the Years Ended December 31,		
	1998	1999	2000
	(in millions)		
Service cost	$ 24	$ 27	$ 23
Interest cost	98	101	109
Amortization:			
Unrecognized net loss from experience differences	2	3	2
Unrecognized prior service cost	(6)	(7)	(8)
Other expense		21	
Net postretirement health care costs	$118	$145	$126

During 1999, the Company instituted early retirement and workforce reduction programs that resulted in curtailment losses of $21 million.

The Company's postretirement health care plans are not funded. The changes in the benefit obligations of the plans were as follows:

	At December 31, 1999	At December 31, 2000
	(in millions)	
Accumulated postretirement benefit obligation at January 1	$1,457	$1,380
Service cost	27	23
Interest cost	101	109
Benefits paid	(97)	(111)
Acquisitions		633
Termination, settlement and curtailment	21	
Plan amendments	(12)	(7)
Actuarial (gains) losses	(117)	75
Accumulated postretirement benefit obligation at December 31	1,380	2,102
Unrecognized actuarial losses	(92)	(159)
Unrecognized prior service cost	63	62
Accrued postretirement health care costs	$1,351	$2,005

The current portion of the Company's accrued postretirement health care costs of $112 million and $138 million at December 31, 1999 and 2000, respectively, are included in other accrued liabilities on the combined balance sheets.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation for U.S. plans was 7.0% in 1999, 6.5% in 2000 and 6.0% in 2001, gradually declining to 5.0% by the year 2003 and remaining at that level thereafter. For Canadian plans, the assumed health care cost trend rate was 9.0% in 1999, 8.0% in 2000 and 7.0% in 2001, gradually declining to 4.0% by the year 2004 and remaining at that level thereafter. A one-percentage-point increase in the assumed health care cost trend rates for each year would increase the accumulated postretirement benefit obligation as of December 31, 2000 and postretirement health care cost (service cost and interest cost) for the year then ended by approximately 9.7% and 12.9%, respectively. A one-percentage-point decrease in the assumed health care cost trend rates for each year would decrease the accumulated postretirement benefit obligation as of December 31, 2000 and postretirement health care cost (service cost and interest cost) for the year then ended by approximately 7.9% and 9.8%, respectively.

The accumulated postretirement benefit obligations for U.S. plans at December 31, 1999 and 2000 were determined using an assumed discount rate of 7.75%. The accumulated postretirement benefit obligations for Canadian plans at December 31, 1999 and 2000 were determined using an assumed discount rate of 7.0%.

Postemployment benefit plans:

The Company and certain of its affiliates sponsor postemployment benefit plans covering substantially all salaried and certain hourly employees. The cost of these plans is charged to expense over the working lives of the covered employees. Net postemployment costs consisted of the following:

	For the Years Ended December 31,		
	1998	1999	2000
	(in millions)		
Service cost	$14	$12	$13
Amortization of unrecognized net gains	(1)	(8)	(4)
Other expense		19	
Net postemployment costs	$13	$23	$ 9

The Company instituted a workforce reduction program in its North American food business in 1999. This action resulted in incremental postemployment costs, which are shown as other expense above.

The Company's postemployment plans are not funded. The changes in the benefit obligations of the plans were as follows:

	At December 31,	
	1999	2000
	(in millions)	
Accumulated benefit obligation at January 1	$376	$333
Service cost	12	13
Benefits paid	(74)	(76)
Acquisitions		74
Actuarial losses		29
Other expense	19	
Accumulated benefit obligation at December 31	333	373
Unrecognized actuarial gains	65	22
Accrued postemployment costs	$398	$395

The accumulated benefit obligation was determined using an assumed ultimate annual turnover rate of 0.3% in 1999 and 2000, assumed compensation cost increases of 4.5% in 1999 and 2000, and assumed benefits as defined in the respective plans. Postemployment costs arising from actions that offer employees benefits in excess of those specified in the respective plans are charged to expense when incurred.

Note 13. Additional Information:

	For the Years Ended December 31, 1998	1999	2000
	(in millions)		
Research and development expense	$ 247	$ 262	$ 270
Advertising expense	$1,271	$1,272	$1,198
Interest and other debt expense, net:			
Interest expense, parent and affiliates	$ 425	$ 458	$ 531
Interest expense, external debt	124	89	84
Interest income	(13)	(8)	(18)
	$ 536	$ 539	$ 597
Rent expense	$ 259	$ 285	$ 277

Minimum rental commitments under non-cancelable operating leases in effect at December 31, 2000 were as follows (in millions):

2001	$200
2002	166
2003	133
2004	113
2005	97
Thereafter	177
	$886

Note 14. Financial Instruments:

Derivative financial instruments:

The Company operates internationally, with manufacturing and sales facilities in various locations around the world. Derivative financial instruments are used by the Company, principally to reduce exposures to market risks resulting from fluctuations in interest rates and foreign exchange rates by creating offsetting exposures. The Company is not a party to leveraged derivatives.

The Company has interest rate swap agreements that were executed to reduce the Company's borrowing costs. At December 31, 2000, the aggregate notional principal amount of those agreements was $96 million. Aggregate maturities at December 31, 2000 were $23 million in 2003 and $73 million in 2004.

Forward foreign exchange contracts and foreign currency options are used by the Company to reduce the effect of fluctuating foreign currencies on foreign currency denominated intercompany and third-party transactions. At December 31, 1999 and 2000, the Company had option and forward foreign exchange contracts, principally for the Japanese yen, the Australian dollar and the Euro, with aggregate notional amounts of $231 million and $237 million, respectively, for both the purchase and sale of foreign currencies. Unrealized gains or losses on foreign currency contracts were immaterial at December 31, 1999 and 2000.

Commodities:

The Company is exposed to price risk related to anticipated purchases of certain commodities used as raw materials in the various businesses. Accordingly, the Company enters into commodity future, forward and option contracts to manage the fluctuations in prices of anticipated purchases, primarily coffee, milk, cheese, cocoa, sugar, wheat and corn. At December 31, 1999 and 2000, the Company had net long commodity positions of $163 million and $617 million, respectively. Unrealized gains or losses on net commodity positions were immaterial at December 31, 1999 and 2000.

Credit exposure and credit risk:

The Company is exposed to credit loss in the event of nonperformance by counterparties. However, the Company does not anticipate nonperformance and such exposure was not material at December 31, 2000.

Fair value:

The aggregate fair value, based on market quotes, of the Company's total debt at December 31, 1999 was $594 million as compared to its carrying value of $538 million. The aggregate fair value of the Company's total debt at December 31, 2000 was $3,605 million as compared to its carrying value of $3,554 million. Based on interest rates available to the Company for issuances of debt with similar terms and remaining maturities, the aggregate fair values and carrying value of the Company's long-term notes payable to Philip Morris and its affiliates were $6,036 million and $6,602 million, respectively at December 31, 1999 and $21,357 million and $21,407 million, respectively at December 31, 2000.

The carrying values of the Company's derivative instruments, which did not differ significantly from their fair values, were not material.

See Notes 3, 7 and 8 for additional disclosures of fair value for short-term borrowings and long-term debt.

Note 15. Contingencies:

The Company and its subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business, including a few cases in which substantial amounts of damages are sought. The Company believes that it has valid defenses and is vigorously defending the litigation pending against it. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on the Company's combined financial position or results of operations.

Note 16. Quarterly Financial Data (Unaudited):

	1999 Quarters			
	First	Second	Third	Fourth
	(in millions, except per share amounts)			
Operating revenue	$6,638	$6,830	$6,326	$7,003
Gross profit	$3,046	$3,197	$2,822	$3,159
Net earnings	$ 361	$ 526	$ 422	$ 444
Per share data:				
Basic earnings per share	$ 0.25	$ 0.36	$ 0.29	$ 0.30
Diluted earnings per share	$ 0.25	$ 0.36	$ 0.29	$ 0.30

During the first quarter of 1999, the Company recorded pre-tax charges of $157 million primarily for voluntary retirement incentive or separation programs.

	2000 Quarters			
	First	Second	Third	Fourth
	(in millions, except per share amounts)			
Operating revenue	$6,460	$6,974	$6,215	$6,883
Gross profit	$3,079	$3,417	$2,958	$3,161
Net earnings	$ 470	$ 568	$ 548	$ 415
Per share data:				
Basic earnings per share	$ 0.32	$ 0.39	$ 0.38	$ 0.29
Diluted earnings per share	$ 0.32	$ 0.39	$ 0.38	$ 0.29

During the third quarter of 2000, the Company recorded a pre-tax gain of $139 million on the sale of a French confectionery business.

KRAFT FOODS INC. AND SUBSIDIARIES

CONDENSED COMBINED BALANCE SHEETS
(in millions of dollars)
(Unaudited)

	At December 31, 2000	At March 31, 2001
ASSETS		
Cash and cash equivalents	$ 191	$ 163
Receivables (less allowances of $152 and $149)	3,231	3,289
Inventories:		
Raw materials	1,175	1,401
Finished product	1,866	1,856
	3,041	3,257
Deferred income tax benefits	504	433
Other current assets	185	290
Total current assets	7,152	7,432
Property, plant and equipment, at cost	13,042	13,088
Less accumulated depreciation	3,637	3,744
	9,405	9,344
Goodwill and other intangible assets (less accumulated amortization of $6,100 and $6,375)	31,584	31,423
Prepaid pension assets	2,623	2,700
Assets held for sale	276	221
Other assets	1,031	933
TOTAL ASSETS	$52,071	$52,053
LIABILITIES AND SHAREHOLDER'S EQUITY		
Short-term borrowings	$ 146	$ 203
Current portion of long-term debt	713	290
Due to parent and affiliates	865	1,616
Accounts payable	1,971	1,560
Accrued liabilities:		
Marketing	1,601	1,503
Employment costs	625	413
Other	1,411	1,614
Income taxes	258	234
Total current liabilities	7,590	7,433
Long-term debt	2,695	2,721
Deferred income taxes	1,446	1,467
Accrued postretirement health care costs	1,867	1,871
Notes payable to parent and affiliates	21,407	21,390
Other liabilities	3,018	2,850
Total liabilities	38,023	37,732
Contingencies (Note 5)		
Class A common stock, no par value (275,000,000 shares issued and outstanding)		
Class B common stock, no par value (1,180,000,000 shares issued and outstanding)		
Additional paid-in capital	15,230	15,230
Earnings reinvested in the business	992	1,318
Accumulated other comprehensive losses (primarily currency translation adjustments)	(2,174)	(2,227)
Total shareholder's equity	14,048	14,321
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$52,071	$52,053

See notes to condensed combined financial statements.

KRAFT FOODS INC. AND SUBSIDIARIES

CONDENSED COMBINED STATEMENTS OF EARNINGS
(in millions of dollars, except per share data)
(Unaudited)

	For the Three Months Ended March 31, 2000	2001
Operating revenue	$6,460	$8,367
Cost of sales	3,381	4,267
Gross profit	3,079	4,100
Marketing, administration and research costs	2,017	2,768
Amortization of goodwill	133	240
Operating income	929	1,092
Interest and other debt expense, net	127	482
Earnings before income taxes	802	610
Provision for income taxes	332	284
Net earnings	$ 470	$ 326
Per share data:		
Basic earnings per share	$ 0.32	$ 0.22
Diluted earnings per share	$ 0.32	$ 0.22

See notes to condensed combined financial statements.

KRAFT FOODS INC. AND SUBSIDIARIES

CONDENSED COMBINED STATEMENTS OF SHAREHOLDER'S EQUITY

For the Year Ended December 31, 2000 and
the Three Months Ended March 31, 2001
(in millions of dollars)
(Unaudited)

	Class A and B Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses: Currency Translation Adjustments	Accumulated Other Comprehensive Losses: Other	Accumulated Other Comprehensive Losses: Total	Total Shareholder's Equity
Balances, January 1, 2000	$ --	$15,230	$ --	$(1,741)	$(28)	$(1,769)	$13,461
Comprehensive earnings:							
Net earnings			2,001				2,001
Other comprehensive losses, net of income taxes:							
Currency translation adjustments				(397)		(397)	(397)
Additional minimum pension liability					(8)	(8)	(8)
Total other comprehensive losses							(405)
Total comprehensive earnings							1,596
Cash dividends declared			(1,009)				(1,009)
Balances, December 31, 2000	--	15,230	992	(2,138)	(36)	(2,174)	14,048
Comprehensive earnings:							
Net earnings			326				326
Other comprehensive losses, net of income taxes:							
Currency translation adjustments				(53)		(53)	(53)
Total comprehensive earnings							273
Balances, March 31, 2001	$ --	$15,230	$1,318	$(2,191)	$(36)	$(2,227)	$14,321

Total comprehensive earnings, which represents net earnings partially offset by currency translation adjustments, were $386 million in the first quarter of 2000.

See notes to condensed combined financial statements.

KRAFT FOODS INC. AND SUBSIDIARIES

CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(in millions of dollars)
(Unaudited)

	For the Three Months Ended March 31, 2000	2001
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 470	$ 326
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	260	425
Deferred income tax provision	51	55
Loss on sale of a North American food factory		29
Cash effects of changes, net of effects from acquired and divested companies:		
Receivables, net	72	(100)
Inventories	(114)	(201)
Accounts payable	(264)	(408)
Income taxes	177	62
Other working capital items	(58)	(306)
Increase in pension assets and postretirement liabilities, net	(44)	(78)
Increase in amounts due to parent and affiliates	18	234
Other	(20)	(36)
Net cash provided by operating activities	548	2
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(120)	(174)
Purchase of businesses, net of acquired cash	(358)	(33)
Proceeds from a sale of a business	32	
Other	6	13
Net cash used in investing activities	(440)	(194)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Net issuance of short-term borrowings	10	61
Long-term debt proceeds	12	14
Long-term debt repaid	(11)	(430)
Repayment of notes payable to parent and affiliates	(30)	
(Decrease) increase in amounts due to parent and affiliates	(53)	519
Net cash (used in) provided by financing activities	(72)	164
Effects of exchange rate changes on cash and cash equivalents	(1)	
Cash and cash equivalents:		
Increase (decrease)	35	(28)
Balance at beginning of period	95	191
Balance at end of period	$ 130	$ 163

See notes to condensed combined financial statements.

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Background and Basis of Presentation:

The interim condensed combined financial statements of Kraft Foods Inc. (the "Company") are unaudited. It is the opinion of the Company's management that all adjustments necessary for a fair statement of the interim results presented have been reflected therein. All such adjustments were of a normal recurring nature. For interim reporting purposes, certain expenses are charged to results of operations as a percentage of sales. Operating revenues and net earnings for any interim period are not necessarily indicative of results that may be expected for the entire year.

These statements should be read in conjunction with the Company's combined financial statements and related notes as of December 31, 2000, and for the three years then ended, which appear elsewhere in this Registration Statement.

Note 2. Related Party Transactions:

Philip Morris Companies Inc. ("Philip Morris") and certain of its affiliates provide the Company with various services, including planning, legal, treasury, accounting, auditing, insurance, human resources, office of the secretary, corporate affairs, information technology and tax services. Billings to the Company were $49 million and $70 million for the quarters ended March 31, 2000 and 2001, respectively. During 2001, the Company entered into a formal agreement with Philip Morris providing for a continuation of these services, the cost of which is expected to increase approximately $50 million in 2001 from $248 million in 2000 to approximately $300 million in 2001, as Philip Morris provides additional information technology and financial services that the Company previously performed internally.

Subsequent to March 31, 2001, we refinanced the two long-term Swiss franc notes payable to Philip Morris with short-term Swiss franc borrowings from Philip Morris at variable interest rates based on six-month LIBOR plus twenty-five basis points.

Note 3. Acquisitions and Divestitures:

Nabisco:

On December 11, 2000, the Company acquired all of the outstanding shares of Nabisco Holdings Corp. ("Nabisco") for $55 per share in cash. The acquisition has been accounted for as a purchase. Nabisco's balance sheet has been consolidated with the Company's balance sheet since December 31, 2000, and, beginning January 1, 2001, Nabisco's earnings have been included in the combined operating results of the Company.

Had the acquisition of Nabisco occurred on January 1, 2000, pro forma operating revenue, net earnings, basic earnings per share and diluted earnings per share would have been as follows:

	For the Three Months Ended March 31, 2000
	(in millions, except per share data)
Operating revenue	$8,352
Net earnings	$ 284
Basic earnings per share	$ 0.20
Diluted earnings per share	$ 0.20

The pro forma results do not give effect to any synergies expected to result from the merger of Nabisco's operations with those of the Company. Accordingly, the pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been consummated on January 1, 2000, nor are they necessarily indicative of future combined operating results.

The excess of the purchase price over the estimated fair value of the net assets purchased was approximately $16.8 billion and will be amortized over 40 years by the straight-line method. The allocation of excess purchase price is based upon preliminary estimates and assumptions and is subject to revision when appraisals and integration plans have been finalized. Accordingly, revisions to the allocation, which may be significant, will be reported in a future period as increases or decreases to amounts reported as goodwill, assets held for sale, other intangible assets (including trade names), deferred income taxes and amortization of goodwill.

The Company plans to sell a number of Nabisco businesses that do not align strategically with its operations, including Nabisco's Canadian grocery business. Accordingly, the estimated selling prices of these businesses, less costs of disposal, plus the estimated results of operations through the sales dates are shown as assets held for sale on the Company's condensed combined balance sheets and total $221 million at March 31, 2001. Assets held for sale decreased by $55 million as of March 31, 2001, due primarily to a revision of estimated proceeds from the sales of these businesses. Interest allocated to assets held for sale was offset by earnings of the related businesses for the three month period ended March 31, 2001. During 2001, the Company will finalize the Nabisco acquisition balance sheet, including the completion of fair value appraisals of Nabisco's assets. During this process, the Company will also finalize its plans to integrate the operations of Nabisco. The Company anticipates closing a number of Nabisco manufacturing facilities. Charges to close these facilities, estimated to be in a range of $500 million to $600 million, will be recorded as adjustments to excess purchase price when plans are finalized and announced to employees.

The integration of Nabisco's operations may result in the closure of several Kraft facilities. During the first quarter of 2001, the Company sold a North American food factory which resulted in a pre-tax loss of $29 million. The Company estimates that the closure of Kraft facilities could result in aggregate charges to the 2001 combined statement of earnings in the range of $200 million to $300 million. These charges will be recorded when the integration plans have been finalized and announced.

Other acquisitions and divestitures:

During the first quarter of 2001, Kraft Foods International purchased coffee businesses in Romania and Morocco and announced the acquisition of a coffee company in Bulgaria. The aggregate cost of these acquisitions will be approximately $80 million, of which $33 million was spent during the first quarter of 2001. The operating results of these businesses were not material to the combined operating results of the Company.

During the first quarter of 2000, the Company purchased the outstanding common stock of Balance Bar Co., a maker of energy and nutrition snack products. In a separate transaction, the Company also acquired Boca Burger, Inc., a privately held manufacturer and marketer of soy-based meat alternatives. The total cost of these acquisitions was $358 million. The operating results of these businesses were not material to the combined operating results in any of the periods presented.

During 2000, Kraft Foods North America and Kraft Foods International sold several small domestic and international food businesses. The operating results of businesses divested were not material to the combined operating results in any of the periods presented.

Note 4. Earnings Per Share:

Basic and diluted earnings per share ("EPS") were calculated using the following:

	For the Three Months Ended March 31, 2000	For the Three Months Ended March 31, 2001
	(in millions)	
Net earnings	$ 470	$ 326
Weighted average shares for basic and diluted EPS	1,455	1,455

Note 5. Contingencies:

The Company and its subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business, including a few cases in which substantial amounts of damages are sought. The Company believes that it has valid defenses and is vigorously defending the litigation pending against it. While the results of litigation cannot be predicted with certainty, management believes that the final outcome of these proceedings will not have a material adverse effect on the Company's combined financial position or results of operations.

Note 6. Segment Reporting:

The Company manufactures and markets packaged retail food products, consisting principally of beverages, cheese, snacks, convenient meals and various grocery products through its North American and international food businesses. Reportable segments for the North American businesses are organized and managed principally by product category. The North American food segments are Cheese, Meals and Enhancers, which includes U.S. food service, Canadian and Mexican operations; Biscuits, Snacks and Confectionery; Beverages, Desserts and Cereals; and Oscar Mayer and Pizza. Kraft Foods North America's food service business within the United States and its businesses in Canada and Mexico are managed under the Cheese, Meals and Enhancers segment. International operations are organized and managed by geographic location. The international food segments are Europe, Middle East and Africa; and Latin America and Asia Pacific.

The Company's management reviews operating companies income to evaluate segment performance and allocate resources. Operating companies income excludes general corporate expenses from Philip Morris and amortization of goodwill. Interest and other debt expense, net and provision for income taxes are managed in conjunction with Philip Morris and, accordingly, such items are not presented by segment since they are excluded from the measure of segment profitability reviewed by management.

Reportable segment data were as follows:

	For the Three Months Ended March 31, 2000	2001
	(in millions)	
Operating revenue:		
Cheese, Meals and Enhancers	$2,234	$2,494
Biscuits, Snacks and Confectionery	74	1,440
Beverages, Desserts and Cereals	1,395	1,464
Oscar Mayer and Pizza	831	884
Total Kraft Foods North America	4,534	6,282
Europe, Middle East and Africa	1,639	1,503
Latin America and Asia Pacific	287	582
Total Kraft Foods International	1,926	2,085
Total operating revenue	$6,460	$8,367
Operating companies income:		
Cheese, Meals and Enhancers	$ 449	$ 491
Biscuits, Snacks and Confectionery	21	165
Beverages, Desserts and Cereals	311	339
Oscar Mayer and Pizza	132	148
Total Kraft Foods North America	913	1,143
Europe, Middle East and Africa	170	172
Latin America and Asia Pacific	30	67
Total Kraft Foods International	200	239
Total operating companies income	1,113	1,382
Amortization of goodwill	(133)	(240)
General corporate expenses	(51)	(50)
Total operating income	929	1,092
Interest and other debt expense, net	(127)	(482)
Earnings before income taxes	$ 802	$ 610

Kraft Foods International's operating revenue by consumer sector was as follows:

Consumer Sector	For the Three Months Ended March 31, 2000	2001
	(in millions)	
Snacks	$ 656	$ 794
Beverages	758	713
Cheese	313	318
Grocery	137	201
Convenient Meals	62	59
Total Kraft Foods International	$1,926	$2,085

During the first quarter of 2001, the Company sold a North American food factory which resulted in a pre-tax loss of $29 million. The loss was included in the Cheese, Meals and Enhancers segment.

Note 7. Recently Adopted Accounting Standards:

Effective January 1, 2001, the Company adopted Statement of Financial

Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related amendment, Statement of

Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" ("SFAS 133"). These standards require that all derivative financial instruments be recorded on the combined balance sheets at their fair value as either assets or liabilities. Changes in the fair value of derivatives will be recorded each period in earnings or accumulated other comprehensive losses, depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive losses will be included in earnings in the periods in which earnings are affected by the hedged item. The adoption of these new standards did not have a material effect on net earnings (less than $1 million) or accumulated other comprehensive losses (less than $1 million).

The Company operates internationally, with manufacturing and sales facilities in various locations around the world and utilizes certain financial instruments to manage its foreign currency and commodity exposures, primarily related to forecasted transactions. For a derivative to qualify as a hedge at inception and throughout the hedged period, the Company formally documents the nature and relationships between the hedging instruments and hedged items, as well as its risk-management objectives, strategies for undertaking the various hedge transactions and method of assessing hedge effectiveness. Additionally, for hedges of forecasted transactions, the significant characteristics and expected terms of a forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction will occur. If it were deemed probable that the forecasted transaction will not occur, the gain or loss would be recognized in earnings currently. Financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. The Company does not engage in trading or other speculative use of financial instruments.

The Company uses forward contracts to mitigate its exposure to changes in foreign currency exchange rates on third-party and intercompany forecasted transactions. The primary currencies to which the Company is exposed include the Euro, Swiss franc and the British pound. The effective portion of unrealized gains and losses associated with forward contracts are deferred as a component of accumulated other comprehensive losses until the underlying hedged transactions are reported on the Company's combined statement of earnings.

The Company uses commodity forward contracts, as cash flow hedges, to procure raw materials, primarily coffee, cocoa, sugar, milk, cheese, wheat, corn and beginning in 2000, energy. Commodity futures and options are also used to hedge the price of certain commodities, primarily coffee and cocoa. In general, commodity forward contracts qualify for the normal purchase exception under SFAS 133 and are, therefore, not subject to the provisions of the statement. When using a commodity option as a hedging instrument, the Company excludes the time value from the assessment of effectiveness. The change in a commodity option's time value is reported in cost of sales in the Company's combined statement of earnings. The effective portion of unrealized gains and losses on commodity futures contracts and options is deferred as a component of accumulated other comprehensive losses and is recognized as a component of cost of sales in the Company's combined statement of earnings when the related inventory is sold.

The Company uses interest rate swaps to hedge the fair value of an insignificant portion of its long-term debt. During the three months ended March 31, 2001, there was no ineffectiveness relating to these fair value hedges. Accordingly, there was no net impact on interest and other debt expense for the three months ended March 31, 2001, from the use of these interest rate swaps.

During the quarter ended March 31, 2001, ineffectiveness related to cash flow and fair value hedges was not material (approximately $1 million). The Company is hedging forecasted transactions for no more than the next twelve months and expects all amounts reported in accumulated other comprehensive losses to be reclassified to the combined statement of earnings within that time frame.

During the quarter ended March 31, 2001, accumulated other comprehensive losses increased by $5 million due to hedging transactions, offset by $5 million reclassified from accumulated other comprehensive losses to the combined statement of earnings.

Note 8. Stock Plans:

The Company's Board of Directors has adopted the 2001 Kraft Performance Incentive Plan (the "Plan"), which will be established concurrently with this offering. Under the Plan, the Company may grant stock options, stock appreciation rights, restricted stock and other awards based on the Company's Class A common stock, as well as performance-based annual and long-term incentive awards. Up to 75 million shares of the Company's Class A common stock may be issued under the Plan. The Company's Board of Directors has approved total option grants of 22,719,298 shares of Class A common stock, which will be awarded concurrently with the closing date of the initial public offering, at an exercise price equal to the initial public offering price. A portion of the shares to be granted (20,368,421) becomes exercisable on January 31, 2003, and will expire ten years from the date of the grant. The remainder of the shares to be granted (2,350,877) will become exercisable three to five years from the date of grant and will also expire ten years from the date of the grant.

The Company's Board of Directors has also adopted the Kraft Director Plan. Under the Kraft Director Plan, only members of the Board of Directors who are not full-time employees of the Company or Philip Morris or their subsidiaries are granted awards. Up to 500,000 shares of Class A common stock may be awarded under the Kraft Director Plan. No awards will be granted under this plan until after the completion of the initial public offering.

Note 9. Recently Issued Accounting Pronouncements:

The Emerging Issues Task Force ("EITF") issued EITF No. 00-14, "Accounting for Certain Sales Incentives." EITF Issue No. 00-14 addresses the recognition, measurement and statement of earnings classification for certain sales incentives and will be effective in the first quarter of 2002. As a result, certain items previously included in cost of sales and in marketing, administration and research costs on the combined statement of earnings will be recorded as a reduction of operating revenue. The Company has determined that the impact of adoption or subsequent application of EITF Issue No. 00-14 will not have a material effect on its combined financial position or results of operations. Upon adoption, prior period amounts, which are not expected to be significant, will be reclassified to conform to the new requirements. In April 2001, the EITF reached a consensus on Issue No. 00-25, "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services." EITF Issue No. 00-25 requires that certain expenses included in marketing, administration and research costs be recorded as a reduction of operating revenue and will be effective in the first quarter of 2002. The Company is currently in the process of determining the impact of EITF Issue No. 00-25.

Note 10. Subsequent Event:

Prior to the effectiveness of the registration statement covering the shares of the Company's Class A common stock being sold in this IPO, some of the underwriters of this IPO provided written copies of a "pre-marketing feedback" form to certain potential purchasers of the Company's Class A common stock. The feedback form was for internal use only and was designed to elicit orally certain information from designated accounts as part of designing strategy in connection with this IPO. This form may constitute a prospectus that does not meet the requirements of the Securities Act of 1933.

If the distribution of this form by the underwriters did constitute a violation of the Securities Act of 1933, persons who received this form, directly or indirectly, and who purchased the Company's Class A common stock in this IPO may have the right, for a period of one year from the date of the violation, to obtain recovery of the consideration paid in connection with their purchase of the Company's Class A common stock or, if they had already sold the stock, attempt to recover losses resulting from their purchase of the Class A common stock. The Company cannot determine the amount of Class A common stock that may be purchased by recipients of the "pre-marketing feedback" form. However, the Company does not believe that any attempts to rescind these purchases or to recover these losses will have a material adverse effect on its financial position.

REPORT OF DELOITTE & TOUCHE LLP, INDEPENDENT AUDITORS

Nabisco Holdings Corp.:

We have audited the accompanying consolidated balance sheets of Nabisco Holdings Corp. ("Nabisco Holdings") as of December 31, 1998 and 1999, and the related consolidated statements of income (loss), comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nabisco Holdings at December 31, 1998 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Parsippany, New Jersey
February 2, 2000

NABISCO HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS
(in millions of dollars)

	At December 31, 1998	At December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 111	$ 110
Accounts receivable, net of allowance for doubtful accounts of $29 and $52, respectively	506	681
Deferred income taxes	98	116
Inventories	753	898
Prepaid expenses and other current assets	70	79
Total current assets	1,538	1,884
Property, plant and equipment--at cost	4,806	5,053
Less accumulated depreciation	(1,859)	(1,966)
Net property, plant and equipment	2,947	3,087
Trademarks, net of accumulated amortization of $1,102 and $1,214, respectively	3,368	3,443
Goodwill, net of accumulated amortization of $910 and $1,007, respectively	3,182	3,159
Other assets and deferred charges	82	134
	$11,117	$11,707
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 68	$ 39
Accounts payable	407	642
Accrued liabilities	1,043	1,020
Current maturities of long-term debt	118	158
Income taxes accrued	111	104
Total current liabilities	1,747	1,963
Long-term debt	3,619	3,892
Other noncurrent liabilities	704	744
Deferred income taxes	1,162	1,176
Contingencies (Note 11)		
Shareholders' equity:		
Class A common stock (51,434,872 and 51,412,707 shares issued and outstanding at December 31, 1998 and 1999, respectively)	1	1
Class B common stock (213,250,000 shares issued and outstanding at December 31, 1998 and 1999)	2	2
Paid-in capital	4,092	4,093
Retained (deficit) earnings	(5)	148
Treasury stock, at cost	(18)	(17)
Accumulated other comprehensive loss	(185)	(293)
Notes receivable on common stock purchases	(2)	(2)
Total shareholders' equity	3,885	3,932
	$11,117	$11,707

See notes to consolidated financial statements.

NABISCO HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(in millions of dollars, except per share amounts)

	For the Years Ended December 31,		
	1997	1998	1999
Net sales	$8,734	$8,400	$8,268
Costs and expenses:			
Cost of products sold	4,950	4,683	4,502
Selling, advertising, administrative and general expenses	2,476	2,672	2,747
Amortization of trademarks and goodwill	226	221	213
Restructuring charges (credits) (Note 3)		530	(67)
Operating income	1,082	294	873
Interest and other debt expense	(326)	(296)	(260)
Other expense, net	(32)	(29)	(31)
Income (loss) before income taxes	724	(31)	582
Provision for income taxes	293	40	222
Income (loss) before extraordinary item	431	(71)	360
Extraordinary item--loss on early extinguishment of debt, net of income taxes (Note 10)	(26)		(3)
Net income (loss)	$ 405	$ (71)	$ 357
Net income (loss) per common share--basic:			
Income (loss) before extraordinary item	$ 1.63	$ (.27)	$ 1.36
Extraordinary item	(.10)		(.01)
Net income (loss)	$ 1.53	$ (.27)	$ 1.35
Net income (loss) per common share--diluted:			
Income (loss) before extraordinary item	$ 1.61	$ (.27)	$ 1.35
Extraordinary item	(.10)		(.01)
Net income (loss)	$ 1.51	$ (.27)	$ 1.34
Dividends declared per common share	$ .68	$ .70	$ .75
Average number of common shares outstanding (in thousands):			
Basic	265,057	264,547	264,670
Diluted	267,374	264,547	266,757

See notes to consolidated financial statements.

NABISCO HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions of dollars)

	For the Years Ended December 31,		
	1997	1998	1999
Net income (loss)	$405	$ (71)	$357
Other comprehensive income (loss):			
Cumulative translation adjustment	(73)	(57)	(111)
Minimum pension liability adjustment	(6)	3	3
Other comprehensive loss before income taxes	(79)	(54)	(108)
(Benefit) provision for income taxes	(2)	1	1
Other comprehensive loss, net of income taxes	(77)	(55)	(109)
Comprehensive income (loss)	$328	$(126)	$248

See notes to consolidated financial statements.

NABISCO HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions of dollars)

	For the Years Ended December 31, 1997	1998	1999
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income (loss)	$ 405	$ (71)	$ 357
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation of property, plant and equipment	277	273	265
Amortization of intangibles	226	221	213
Deferred income tax provision (benefit)	11	(188)	48
Restructuring items, net of cash payments	(135)	491	(157)
Accounts receivable	14		(139)
Inventories	(12)	44	(102)
Prepaid expenses and other current assets	(6)	(10)	3
Accounts payable	10	(49)	174
Accrued liabilities	(192)	(32)	77
Income taxes accrued	19	(3)	(15)
Other, net	(55)	(12)	(1)
Extraordinary loss	43		3
Gain on divestitures, net	(32)	(14)	
Net cash flows from operating activities	573	650	726
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Capital expenditures	(392)	(340)	(241)
Acquisition of businesses	(46)	(9)	(578)
Other, net	15	13	36
Proceeds from sale of businesses	50	550	
Net cash flows (used in) from investing activities	(373)	214	(783)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Net proceeds from the issuance of long-term debt	1,229	1,279	777
Repayments of long-term debt	(1,145)	(1,893)	(491)
Decrease in notes payable	(45)	(103)	(23)
Dividends paid on common stock	(175)	(185)	(195)
Repurchase of Class A common stock	(22)	(38)	(12)
Net proceeds from issuance of Class A common stock		25	8
Proceeds from the sale of call options on long-term debt		41	
Net cash flows (used in) from financing activities	(158)	(874)	64
Effect of exchange rate changes on cash and cash equivalents	(8)	(6)	(8)
Net change in cash and cash equivalents	34	(16)	(1)
Cash and cash equivalents at beginning of period	93	127	111
Cash and cash equivalents at end of period	$ 127	$ 111	$ 110
Income taxes paid, net of refunds	$ 247	$ 231	$ 190
Interest paid	$ 358	$ 276	$ 261

See notes to consolidated financial statements.

NABISCO HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 1997, 1998 and 1999
(in millions of dollars and thousands of shares)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Notes Receivable	Total
Balance at January 1, 1997	265,070	$3	$4,093	$ 43	$ (53)	$ --	$(2)	$4,084
Net income				405				405
Cumulative translation adjustment					(73)			(73)
Minimum pension liability, net of tax benefit of $1					(4)			(4)
Dividends declared				(180)				(180)
Repurchase of Class A shares	(682)					(32)		(32)
Other			4					4
Balance at December 31, 1997	264,388	3	4,097	268	(130)	(32)	(2)	4,204
Net loss				(71)				(71)
Cumulative translation adjustment					(57)			(57)
Minimum pension liability, net of tax expense of $2					2			2
Dividends declared				(185)				(185)
Repurchase of Class A shares	(568)					(27)		(27)
Class A treasury shares issued	865		5	(17)		41		29
Other			(10)					(10)
Balance at December 31, 1998	264,685	3	4,092	(5)	(185)	(18)	(2)	3,885
Net income				357				357
Cumulative translation adjustment					(111)			(111)
Minimum pension liability, net of tax expense of $1					2			2
Dividends declared				(198)				(198)
Repurchase of Class A shares	(300)					(12)		(12)
Class A treasury shares issued	278			(5)		13		8
Other			1	(1)	1			1
Balance at December 31, 1999	264,663	$3	$4,093	$ 148	$(293)	$(17)	$(2)	$3,932

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies:

The Summary of Significant Accounting Policies below and the other notes to the consolidated financial statements on the following pages are integral parts of the accompanying consolidated financial statements ("Consolidated Financial Statements") of Nabisco Holdings Corp. ("Nabisco Holdings" or the "Company").

Consolidation and use of estimates:

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior year amounts have been reclassified to conform to the 1999 presentation.

Cash and cash equivalents:

Cash equivalents include all short-term, highly liquid investments that are readily convertible to known amounts of cash and that have original maturities of three months or less. Cash equivalents at December 31, 1998 and 1999, valued at cost (which approximated market value), totaled $71 million and $54 million, respectively.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined principally under the first-in, first-out method.

Commodity contracts:

Due to wide fluctuations in the market prices for various agricultural commodities, the Company frequently enters into futures contracts to hedge the price risk associated with anticipated purchases. The Company realizes changes in the market value of futures contracts that qualify as hedges as an addition to, or reduction from, the raw material inventory cost. Realized gains and losses are recorded in cost of products sold when the related finished products are sold. The amount of hedging losses deferred as of December 31, 1998 and 1999 was $5 million and $7 million, respectively. Any futures contracts that do not qualify for hedge accounting treatment are marked-to-market each reporting period with the resulting market change reflected in cost of products sold in the current period.

Depreciation:

For financial reporting purposes, depreciation expense is generally provided on a straight-line basis, using estimated useful lives of up to 20 years for land improvements, 20 to 40 years for buildings and leasehold improvements and 3 to 30 years for machinery and equipment.

Trademarks and goodwill:

Values assigned to trademarks and goodwill are amortized on a straight-line basis principally over a 40-year period.

Long-lived assets:

Long-lived assets are comprised of intangible assets and property, plant and equipment. Long-lived assets, including certain identifiable intangibles and goodwill related to those assets to be held and used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An estimate of undiscounted future cash flows produced by the asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether an impairment exists. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows and fundamental analysis. Assets to be disposed of are reported at the lower of their carrying value or estimated net realizable value.

Revenue recognition:

Revenue is recognized when title to finished product passes to the customer. Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and product returns.

Other income (expense), net:

Other expense, net includes interest income, certain foreign currency gains and losses, expenses related to the sales of accounts receivable and fees related to banking and borrowing programs.

Advertising:

Advertising costs are generally expensed as incurred. Advertising expense was $223 million, $226 million and $250 million for the years ended December 31, 1997, 1998 and 1999, respectively.

Research and development:

Research and development expenses, which are expensed as incurred, were $95 million, $100 million and $96 million for the years ended December 31, 1997, 1998 and 1999, respectively.

Interest rate financial instruments:

Interest rate swaps and caps are used to effectively hedge certain interest rate exposures. In both types of hedges, the differential to be paid or received is accrued and recognized in interest expense and may change as market interest rates change. Any premium paid or received is amortized over the duration of the hedged instrument. If an arrangement is terminated or effectively terminated prior to maturity, then the realized or unrealized gain or loss is effectively recognized over the remaining original life of the agreement if the hedged item remains outstanding, or immediately, if the underlying hedged instrument does not remain outstanding. If the arrangement is not terminated or effectively terminated prior to maturity, but the underlying hedged instrument is no longer outstanding, then the unrealized gain or loss on the related interest rate swap or cap is recognized immediately.

Foreign currency financial instruments:

The forward foreign exchange contracts and other hedging arrangements entered into by the Company generally mature at the time the hedged foreign currency transactions are settled. Gains or losses on forward foreign currency transactions are determined by changes in market rates and are generally included at settlement in the basis of the underlying hedged transaction. To the extent that the foreign currency transaction does not occur, gains and losses are recognized immediately.

Recently issued accounting pronouncements:

During the second quarter of 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, which was required to be adopted by January 1, 2000, with early adoption permitted. In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of SFAS No. 133, which amended SFAS No. 133 to delay its effective date one year. SFAS No. 133 requires that all derivative instruments be recorded on the consolidated balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Nabisco Holdings has not yet determined the impact, if any, that adoption or subsequent application of SFAS No. 133 will have on its financial position or results of operations.

Net income per share:

Per share data has been computed and presented pursuant to the provisions of SFAS No. 128, Earnings per Share, which was adopted in the fourth quarter of 1997. Net income per common share--basic is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Net income per common share--diluted is calculated by dividing net income by the weighted average number of common shares and common equivalent shares for stock options outstanding during the period.

Income taxes:

During the second quarter of 1999, the former direct and indirect parents of Nabisco Holdings, RJR Nabisco, Inc., which has been renamed R.J. Reynolds Tobacco Holdings, Inc. ("RJR") and RJR Nabisco Holdings Corp., which has been renamed Nabisco Group Holdings Corp. ("NGH"), completed a series of reorganization transactions as described in Note 2 to the Consolidated Financial Statements. As part of those transactions, NGH, Nabisco Holdings and RJR entered into a tax sharing agreement that sets forth, among other things, each company's rights and obligations relating to tax payments and refunds for periods before and after those transactions, certain tax indemnification arrangements and other tax matters such as the filing of tax returns and the handling of audits and other tax proceedings.

The Company calculates its income taxes on a separate basis from NGH; however, the following modifications were made to the Company's income taxes because federal income taxes are calculated and paid on a consolidated basis by NGH. To the extent foreign tax credits of the Company cannot be used currently on a consolidated basis, no current credit is given to the Company under the tax sharing agreement with NGH, and other credits, losses or benefits of the Company not used separately are recognized by the Company if they could be used in filing a consolidated tax return. Deferred federal income taxes are recorded on the Company's books, and current federal income taxes payable are remitted to NGH. Generally, any adjustments to federal and state income tax liabilities for years after 1989 will be paid by NGH and charged or credited to Nabisco Holdings, as applicable. Any adjustments to federal and state income tax liabilities for 1989 or earlier are the obligation of RJR. NGH will generally pay to Nabisco Holdings any tax refund received by NGH and attributable to the Company for years after 1989. Foreign income taxes generally are computed on a separate company basis.

Note 2. Reorganization of Nabisco Holdings' Parents:

During the second quarter of 1999, a series of reorganization transactions was completed, as a result of which Nabisco Holdings and its subsidiaries are no longer affiliated with RJR and its subsidiaries. The principal transactions in this reorganization that affected Nabisco Holdings are the following:

- On May 18, 1999, RJR transferred all of the outstanding Class B common stock of Nabisco Holdings to NGH through a merger transaction.

- On June 14, 1999, NGH distributed all of the outstanding shares of RJR common stock to NGH common shareholders of record as of May 27, 1999.

NGH owns 100% of the outstanding Class B common stock of Nabisco Holdings, which represents approximately 80.6% of the economic interest and 97.6% of the combined voting power of all of the outstanding common stock as of March 15, 2000.

Note 3. Operations:

Acquisitions:

In recent years, subsidiaries of Nabisco Holdings have completed a number of acquisitions to expand the domestic and international food businesses, all of which have been accounted for using the purchase method of accounting for business combinations. In December 1997, the Company acquired the stock of Cornnuts, Inc., a manufacturer of crispy corn kernel snacks, for approximately $51 million. As of December 31, 1997, the acquisition was carried in other assets in the consolidated balance sheet pending completion of the purchase price allocation. During 1998 the purchase price was allocated resulting in goodwill of $30 million, including $4 million for a plant closure. In 1998, the Company acquired the assets of the Jamaican biscuit and snacking company, Butterkist, Ltd. for $9 million. The fair value of the assets acquired approximated the purchase price. In September 1999, the Company acquired the stock of Canale S.A., Argentina's fourth largest biscuit company for approximately $134 million resulting in goodwill of $45 million. In November 1999, the Company also acquired certain assets and liabilities of Favorite Brands International, Inc., the fourth largest non-chocolate candy company in the United States for approximately $480 million. As of December 31, 1999, a preliminary purchase price allocation was completed, resulting in goodwill of approximately $68 million, subject to finalization of integration plans which could result in an adjustment to goodwill in 2000.

The Consolidated Statements of Income and Comprehensive Income do not include any revenues or expenses related to the acquisitions described above prior to their respective closing dates. The acquisitions were financed through commercial paper borrowings. The following are the Company's unaudited pro forma results of operations for 1998 and 1999, assuming that the 1999 acquisition of certain assets and liabilities of Favorite Brands International, Inc. had occurred on January 1, 1998.

	For the Years Ended December 31, 1998	1999
	(in millions, except per share amounts, unaudited)	
Net sales	$9,146	$8,890
(Loss) income before extraordinary item	(110)	317
(Loss) income per common share before extraordinary item:		
Basic	(.42)	1.20
Diluted	(.42)	1.19

These pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred on the date indicated, or which may result in the future.

Divestitures and other charges:

In June 1997, the Company sold certain domestic regional brands for $50 million that resulted in a $32 million gain ($19 million after tax). In addition, non-recurring expenses of $31 million ($18 million after tax) were recognized. These included a $14 million additional provision to write-down property, plant and equipment ($10 million), intangibles ($2 million) and inventory ($2 million) of the Plush Pippin frozen pie business sold in 1998 at its approximate carrying value of $5 million; $10 million of severance and related benefits for approximately 80 sales persons in the U.S. Foods Group sales organization; and $7 million of exit costs resulting from the relocation of Nabisco International's headquarters from New York City to New Jersey consisting of $6 million for lease abandonment costs and $1 million for employee severance benefits. The net $1 million pre-tax gain from these items is included in selling, advertising, administrative and general expenses in the Consolidated Statements of Income. 1997 net sales from the Plush Pippin frozen pie business were $40 million and operating income was not material.

The 1998 cost of products sold includes a $35 million net gain ($19 million after tax) related to businesses sold and a $21 million charge ($17 million after tax) to exit non-strategic businesses. Both items were recorded in the third quarter. Businesses sold in 1998 include the College Inn brand of canned broths, Plush Pippin frozen pies, the U.S. and Canadian tablespreads and U.S. egg substitute businesses (formerly included in the U.S. Foods Group operating segment) and the Del Monte brand canned vegetable business in Venezuela (formerly included in the International Food Group operating segment) for net proceeds of approximately $550 million.

Net sales for 1997 and 1998 from all divestitures in both years by the Company were $632 million and $298 million, respectively. Operating income for 1997 and 1998 from the divested businesses was $87 million and $33 million, respectively.

1998 restructuring charges:

In the second and fourth quarters of 1998, the Company recorded restructuring charges of $406 million ($268 million after tax) and $124 million ($94 million after tax), respectively. These restructuring programs were undertaken to streamline operations and improve profitability and will result in a workforce reduction of approximately 6,900 employees of which 6,100 positions were eliminated as of December 31, 1999. The headcount reduction represents a slight increase from the original projection of 6,500. The increase resulted from higher than anticipated eliminations as projects were completed and is primarily due to projects in International manufacturing locations and to a lesser extent the Biscuit sales force reorganization. The increase in the number of positions eliminated did not result in incremental spending as higher costs for these projects were offset by lower costs and cash outlays overall, as described below.

The June 1998 program was substantially completed in 1999 and the December 1998 program is expected to be substantially completed by mid-year 2000. The restructuring programs when completed will require net cash expenditures of approximately $140 million. In addition, the programs required additional restructuring-related expenses of $132 million ($79 million after tax), of which $76 million ($46 million after tax) was incurred in the twelve months ended December 31, 1999, and are now completed. These additional expenses were principally for implementation and integration of the programs and included costs for relocation of employees and equipment and training.

In 1999, the Company recorded a net restructuring credit of $67 million ($48 million after tax), related to the Biscuit, U.S. Foods Group and International businesses of $30 million, $18 million and $19 million, respectively. The credit primarily reflects higher than anticipated proceeds from the sale of facilities closed as part of the 1998 restructuring programs, lower costs and cash outlays than originally estimated for certain of these programs and minor project cancellations offset to a minor extent by increased costs in certain programs.

The major components of the credit were lower severance and benefit costs for: the sales force reorganization of $21 million; staff reduction at headquarters and operating units of $24 million; and distribution reorganizations of $5 million. The reduced costs reflected unanticipated staff reductions through voluntary separations rather than planned terminations and other net changes in cost estimates. In addition, asset impairment costs were lower by $14 million reflecting higher proceeds and anticipated proceeds from the sales of facilities.

The key elements of the restructuring programs include:

	Severance and Benefits	Contract Terminations	Asset Impairments	Other Exit Costs	Total
			(in millions)		
Sales force reorganizations	$ 37	$ 3			$ 40
Distribution reorganizations	16	8	$ 9		33
Staff reductions	83		3		86
Manufacturing costs reduction initiatives	22		8		30
Plant closures	46	3	217	$ 15	281
Product line rationalizations	4	4	20	32	60
Total 1998 restructuring reserves	208	18	257	47	530
1999 net restructuring credit	(50)	1	(14)	(4)	(67)
	158	19	243	43	463
Charges and payments:					
Year ended December 31, 1998	(34)	(3)	(12)	(12)	(61)
Year ended December 31, 1999	(98)	(11)	(221)	(23)	(353)
Total charges and payments, net of cash proceeds	(132)	(14)	(233)	(35)	(414)
Reserve and valuation account balances as of December 31, 1999	$ 26	$ 5	$ 10	$ 8	$ 49

- Sales force reorganizations consist of $35 million for the Nabisco Biscuit Company to reorganize its direct store delivery sales force to improve its effectiveness and $5 million for the International Food Group, principally Latin America.

- Distribution reorganizations consist of plans to exit a number of domestic and international distribution and warehouse facilities, principally $19 million for the Nabisco Biscuit Company and $14 million for the International Food Group.

- Staff reductions consist of headquarters and operating unit realignments, functional consolidations and eliminations of positions throughout the Company. Amounts are: $37 million for the U.S. Foods Group; $26 million for Nabisco International headquarters, Canada and other foreign units; $15 million for corporate headquarters; and $8 million for the Nabisco Biscuit Company.

- Manufacturing cost reduction initiatives consist of a number of domestic and international programs to increase productivity, principally $19 million for the Nabisco Biscuit Company and $7 million for Canada.

- Plant closure accruals are for the closure and future sale of 18 production facilities in order to improve manufacturing efficiencies and reduce costs. Amounts are: Nabisco Biscuit Company $217 million; U.S. Foods Group $12 million; and International Food Group $52 million. Other exit costs consist of carrying costs to be incurred prior to sale.

- Product line rationalizations consist of exit costs to discontinue a number of domestic and international product lines. Other exit costs are principally write-offs for disposals of various discontinued products. Amounts are: U.S. Foods Group $34 million; Nabisco Biscuit Company $14 million; and International Food Group $12 million.

The key elements of the restructuring programs, after the restructuring credit of $67 million include:

	Severance and Benefits	Contract Terminations	Asset Impairments	Other Exit Costs	Total
	(in millions)				
Sales force reorganizations	$ 16	$ 3			$ 19
Distribution reorganizations	11	4	$ 7		22
Staff reductions	59	1	4		64
Manufacturing costs reduction initiatives	19		8		27
Plant closures	51	6	203	$15	275
Product line rationalizations	2	5	21	28	56
Total restructuring charges	$158	$19	$243	$43	$463

Total charges and payments include cash expenditures, non-cash charges primarily for asset impairments and committed severance and benefits to be paid. The total cash payments, net of cash proceeds applied against the restructuring reserves totaled $103 million, which is comprised of cumulative cash expenditures of $124 million and cumulative cash proceeds of $21 million. For the year ended December 31, 1999, cash payments, net of cash proceeds totaled $65 million, which is comprised of $86 million of cash expenditures and $21 million of cash proceeds which were applied against the restructuring reserves.

Asset impairments in connection with the restructuring program were identified and measured in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. In instances where the held and used method was applied, which includes all plant closures, the fair value of impaired assets was determined using the discounted cash flows generated from assets while still in use and the estimated proceeds from their ultimate sale.

As of December 31, 1999, production had ceased in 16 of the 18 facilities identified under the programs. Nabisco decided not to close the remaining two small facilities in the International Food Group due to volatile economic conditions and a highly inflationary economy which made the economic benefit unachievable.

Note 4. Accounts Receivable:

Nabisco maintains an arrangement to sell for cash substantially all of its eligible domestic trade accounts receivable to a financial institution pursuant to a purchase and sale agreement. Eligible trade accounts receivable, which are sold without recourse, are accounts that are not in excess of certain agreed-upon concentration amounts, and exclude amounts that may be delinquent, in default, or disputed. Eligible accounts are sold on a daily basis and are settled monthly. The maximum amount of outstanding eligible trade accounts receivable sold at any time is $400 million. The Company provides ongoing credit and collection services on the sold accounts. The current agreement will expire in October 2001. The weighted-average discount rates were 5.8%, 5.8% and 5.6% for the three years ended December 31, 1997, 1998 and 1999, respectively. These rates were based upon the financial institution's commercial paper borrowing rate plus participation fees of approximately 0.3% which are adjusted annually. In addition, similar arrangements have been established for the sale of trade accounts receivable by certain foreign subsidiaries. Eligible trade accounts receivable balances sold were $381 million and $260 million at December 31, 1998 and 1999, respectively. The aggregate expenses related to the sales of trade accounts receivable included in Other expense, net were $20 million in 1997, $19 million in 1998 and $17 million in 1999.

Note 5. Inventories:

The major classes of inventory are shown in the table below:

	At December 31,	
	1998	1999
	(in millions)	
Finished products	$457	$551
Raw materials	164	199
Other	132	148
Total	$753	$898

Note 6. Property, Plant and Equipment:

Components of property, plant and equipment were as follows:

	At December 31,	
	1998	1999
	(in millions)	
Land and land improvements	$ 192	$ 196
Buildings and leasehold improvements	937	962
Machinery and equipment	3,385	3,596
Construction-in-process	292	299
	4,806	5,053
Less accumulated depreciation	(1,859)	(1,966)
Net property, plant and equipment	$ 2,947	$ 3,087

Note 7. Notes Payable:

Notes payable consist of notes payable to banks by foreign subsidiaries and $9 million of commercial paper borrowings by certain foreign subsidiaries as of December 31, 1998 and $5 million of commercial paper borrowings by certain foreign subsidiaries as of December 31, 1999. The weighted average interest rate on all notes payable and commercial paper borrowings was 8.0% and 8.2% at December 31, 1998 and 1999, respectively. The weighted average interest rates include borrowing rates in countries with high inflation, primarily in Latin America and South Africa.

Note 8. Accrued Liabilities:

Accrued liabilities consisted of the following:

	At December 31, 1998	At December 31, 1999
	(in millions)	
Payroll and employee benefits	$ 274	$ 349
Marketing and advertising	237	272
Restructuring	202	35
Insurance	50	53
Taxes, other than income taxes	47	53
Interest	70	69
Dividends payable on common stock	46	50
All other	117	139
Total accrued liabilities	$1,043	$1,020

Note 9. Income Taxes:

The provision (benefit) for income taxes before extraordinary item consisted of the following:

	For the Years Ended December 31, 1997	1998	1999
	(in millions)		
Current:			
Federal	$211	$158	$109
Foreign and other	71	70	65
	282	228	174
Deferred:			
Federal	2	(172)	39
Foreign and other	9	(16)	9
	11	(188)	48
Provision for income taxes	$293	$ 40	$222

The components of the deferred income tax (assets) and liabilities were as follows:

	At December 31, 1998	At December 31, 1999
	(in millions)	
Current deferred income tax assets:		
Accrued liabilities and other	$ (103)	$ (121)
Valuation allowance	5	5
Net current deferred income tax assets	(98)	(116)
Non-current deferred income tax assets:		
Pension liabilities	(24)	(14)
Other postretirement liabilities	(149)	(149)
Other non-current liabilities	(134)	(82)
Total non-current deferred income tax assets before valuation allowance	(307)	(245)
Valuation allowance, primarily foreign net operating losses	82	85
Net non-current deferred income tax assets	(225)	(160)
Non-current deferred income tax liabilities:		
Property, plant and equipment	322	277
Trademarks	1,027	1,004
Other	38	55
Total non-current deferred income tax liabilities	1,387	1,336
Net non-current deferred income tax liabilities	$1,162	$1,176

Pre-tax income (loss) before extraordinary item for domestic and foreign operations is shown in the following table:

	For the Years Ended December 31, 1997	1998	1999
	(in millions)		
Domestic (includes U.S. exports)	$553	$(77)	$371
Foreign	171	46	211
Pre-tax income (loss)	$724	$(31)	$582

The differences between the provision for income taxes and income taxes computed at statutory U.S. federal income tax rates are explained as follows:

	For the Years Ended December 31,		
	1997	1998	1999
	(in millions)		
Reconciliation from statutory rate to effective rate:			
Income taxes computed at statutory U.S. federal income tax rates	$ 254	$ (11)	$ 204
State taxes, net of federal benefit	21	17	15
Goodwill amortization	30	30	30
Taxes on foreign operations at rates other than statutory U.S. federal rate	(10)	12	(24)
Other items, net	(2)	(8)	(3)
Provision for income taxes	$ 293	$ 40	$ 222
Effective tax rate	40.5%	(129.0)%	38.1%

The reported effective tax rate for 1997 was 40.5%. The reported effective tax rate was (129.0)% in 1998 versus the 38.1% rate for 1999. The 38.1% effective tax rate benefited from the 28.3% effective tax rate recorded on restructuring credits. Excluding the tax related impact from restructuring credits in 1999 and restructuring charges and the net gain from divestitures in 1998, the effective tax rates are 40.5% and 39.5% for 1998 and 1999, respectively.

At December 31, 1999, there was $802 million of accumulated and undistributed income of foreign subsidiaries. These earnings are intended by management to be reinvested abroad indefinitely. Accordingly, no applicable U.S. federal deferred income taxes have been provided nor is a determination of the amount of unrecognized U.S. federal deferred income taxes practicable.

Note 10. Long-term Debt:

Long-term debt consisted of the following:

	At December 31,	
	1998	1999
	(in millions)	
Commercial paper, average interest rates of 5.7% and 6.4%	$ 174	$ 902
8.3% notes due April 15, 1999	106	
8.0% notes due January 15, 2000	148	148
6.24% pound sterling notes due August 12, 2001	163	
6.8% notes due September 1, 2001	80	80
6.7% notes due June 15, 2002	400	400
6.85% notes due June 15, 2005	400	400
7.05% notes due July 15, 2007	400	400
5.38% notes due August 26, 2009	200	
6.0% notes due February 15, 2011	400	400
7.55% debentures due June 15, 2015	399	399
6.13% notes due February 1, 2033	299	299
6.38% notes due February 1, 2035	299	299
Other long-term debt	269	323
Less current maturities	(118)	(158)
Total	$3,619	$3,892

The payment of long-term debt through December 31, 2004 is due as follows (in millions): 2001-$139; 2002-$1,399; 2003-$52 and 2004-$97.

Nabisco Holdings maintains a $1.5 billion revolving credit facility and a 364-day $1.10 billion credit facility primarily to support commercial paper issuances. At the end of the 364-day period, any borrowings outstanding under the 364-day credit facility are convertible into a three-year term loan at the Company's option. The commitments under the revolving credit facility decline to approximately $1.46 billion on October 31, 2001 for the final year. Borrowings under the revolving credit facility bear interest at rates which vary with the prime rate or LIBOR. Borrowings under the 364-day credit facility bear interest at rates which vary with LIBOR. At December 31, 1999, the full $1.5 billion was available under the revolving credit facility and $198 million was available under the 364-day credit facility. Similar facilities were in place during 1997 and 1998.

Commercial paper borrowings have been included under long-term debt based on the Company's intention, and ability under its credit facilities, to refinance these borrowings for more than one year.

The credit facilities restrict dividends and distributions after January 1, 1999 by Nabisco Holdings to holders of its equity securities by requiring a minimum net worth amount. As of December 31, 1999, actual net worth, as defined, exceeded required net worth by approximately $915 million.

The credit facilities also limit the ability of Nabisco Holdings and its subsidiaries to incur indebtedness, engage in transactions with shareholders and affiliates, create liens, acquire, sell or dispose of certain assets and securities and engage in certain mergers or consolidations. Nabisco Holdings believes that they are currently in compliance with all covenants and restrictions imposed by the terms of their indebtedness.

In August 1997, the Company issued $200 million of floating rate (5.38% at December 31, 1998) notes due August 2009. During the third quarter of 1999 the Company exercised a call option to redeem these notes and recognized an after tax extraordinary loss of approximately $3 million. This redemption was refinanced with commercial paper.

In December 1997, the Company completed a tender offer and redeemed $432 million of its $538 million 8.3% notes due 1999 and $541 million of its $688 million outstanding 8% notes due 2000. An extraordinary loss of $43 million ($26 million after tax) was recorded for this transaction. The redemption of these notes was financed with additional short-term borrowings, which in turn were refinanced by the issuance of long-term debt in January 1998.

In January 1998, the Company issued $400 million of 6% notes due February 15, 2011 which are putable and callable on February 15, 2001; $300 million of 6 1/8% notes due February 1, 2033 which are putable and callable on February 1, 2003; and $300 million of 6 3/8% notes due February 1, 2035 which are putable and callable on February 1, 2005. Unless the notes are put, the interest rates on the 6% notes, the 6 1/8% notes and the 6 3/8% notes are reset on the applicable put/call date at 5.75%, 6.07% and 6.07%, respectively, plus, in each case, the Company's future credit spread on treasury notes of comparable maturities. The Company no longer retains the right to call these notes as these options were sold at issuance for $41 million. The net proceeds from these notes and the sale of call options were used to repay commercial paper borrowings.

The Company filed a shelf registration statement with the Securities and Exchange Commission for $1.0 billion of debt which was declared effective on December 10, 1999.

The estimated fair value of long-term debt, including current maturities at December 31, 1998 and 1999 was approximately $4.0 billion for both years. Considerable judgment was required in interpreting market data to develop the estimates of fair value. In addition, the use of different market assumptions and/or estimation methodologies may have had a material effect on the estimated fair value amounts. Accordingly, the estimated fair value of long-term debt as of December 31, 1998 and 1999 is not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Note 11. Contingencies:

Nabisco Holdings or certain of its subsidiaries have been named "potentially responsible parties" with third parties under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or may have indemnification obligations with respect to 14 sites. Liability under CERCLA is joint and several. Although it is difficult to identify precisely the estimated cost of resolving these CERCLA matters, such expenditures or costs are not expected to have a material adverse effect on Nabisco Holdings' financial condition or results of operations.

In addition, a subsidiary of the Company may have indemnification obligations to a third party with respect to certain lawsuits arising from a CERCLA site although the subsidiary itself is not named in the lawsuits. Management cannot currently predict the likelihood that it will have to perform on these obligations or what the magnitude of the obligations would be.

Note 12. Related Party Transactions:

NGH, RJR and R.J. Reynolds Tobacco Company entered into several agreements governing the relationships among the parties after the distribution of RJR's shares to NGH shareholders, including the provision of intercompany services by the Company to NGH, certain tax matters, indemnification rights and obligations and other matters among the parties.

These agreements replaced a predecessor intercompany services agreement, a predecessor tax sharing agreement and a predecessor corporate agreement that had previously been in place between Nabisco Holdings and RJR. Nabisco Holdings does not anticipate that its entry into these new agreements will have a material effect on its financial condition or results of operations.

Note 13. Commitments:

At December 31, 1999, other commitments totaled approximately $239 million, which included $28 million for capital commitments and $211 million related to operating lease commitments. The operating lease amounts for each of the five succeeding years are: 2000--$37 million; 2001--$29 million; 2002--$25 million; 2003--$20 million; 2004--$20 million; and in 2005 and thereafter--$80 million. Rent expense, including operating leases was $84 million, $89 million and $102 million for the three years ended December 31, 1997, 1998 and 1999, respectively.

Note 14. Financial Instruments:

Interest rate:

The Company manages its debt structure and interest rate risk through the use of fixed and floating rate debt, and through the use of derivatives. The Company uses interest rate swaps and caps to hedge its exposure to interest rate changes, and also to lower its financing costs.

At December 31, 1999, outstanding interest rate caps had an aggregate notional principal amount of $700 million and expire in June 2000. The estimated fair values of these financial instruments as of December 31, 1999, and similar financial instruments as of December 31, 1998, were favorable by less than $1 million.

At December 31, 1999, outstanding fixed to floating interest rate swaps for $102 million notional principal amount had estimated fair values which were unfavorable by approximately $4 million. These swaps expire as follows: $29 million in 2003; and $73 million in 2004. At December 31, 1998, similar financial instruments for $565 million had estimated fair values which were favorable by approximately $11 million.

Estimated fair values for all interest rate financial instruments were based on calculations by independent third parties.

Foreign currency:

At December 31, 1998 and 1999, the Company had outstanding forward foreign exchange contracts with banks to purchase and sell aggregate amounts of $21 million and $5 million, respectively. Such contracts were primarily entered into to hedge certain international subsidiary debt. The purpose of the Company's foreign currency hedging activities is to protect the Company from risk that the eventual U.S. dollar cash flows resulting from transactions with international parties will be adversely affected by changes in exchange rates. Based on calculations from independent third parties, the estimated fair value of these financial instruments as of December 31, 1998 was unfavorable by approximately $1 million and as of December 31, 1999 was favorable by less than $1 million.

Market and credit risk:

The outstanding interest rate and foreign currency financial instruments involve, to varying degrees, elements of market risk as a result of potential changes in interest and foreign currency exchange rates. To the extent that the financial instruments entered into remain outstanding as effective hedges of existing interest rate and foreign currency exposure, the impact of such potential changes in interest rates and foreign currency exchange rates on the financial instruments entered into would offset the related impact on the items being hedged. Also, the Company may be exposed to credit losses in the event of non-performance by the counterparties to these financial instruments. However, management continually monitors its positions and the credit rating of its counterparties and therefore, does not anticipate any non-performance.

There are no significant concentrations of credit risk with any individual counterparties or groups of counterparties as a result of any financial instruments entered into including those financial instruments discussed above.

Note 15. Retirement Benefits:

The Company sponsors a number of non-contributory and contributory defined benefit pension plans covering most U.S. and certain foreign employees and former employees of Nabisco Holdings and NGH. Additionally, the Company participates in several (i) multi-employer plans, which provide benefits to certain union employees, and (ii) defined contribution plans, which provide benefits to certain employees in foreign countries. The Company also provides certain other postretirement health and life insurance benefits for retired employees of Nabisco Holdings, NGH and their dependents.

In connection with the reorganization transactions described in Note 2 to the Consolidated Financial Statements, the assets and liabilities of the Retirement Plan for Employees of RJR Nabisco, Inc. (the "old plan") were split into two plans. One plan covers employees and former employees of Nabisco Holdings and NGH (the "Nabisco Plan") and the other plan covers employees and former employees of RJR.

The split of assets and liabilities of the old plan was in accordance with a May 1999 agreement between the Pension Benefit Guaranty Corporation ("PBGC") and RJR Nabisco Holdings Corp. (now known as NGH). Based on this agreement and as required by Section 414(l) of the Internal Revenue Code, the assets of the old plan were allocated in proportion to the benefit obligations of each of the respective plans. The use of this methodology resulted in a lower actual net transfer of assets to the Nabisco Plan of $69 million and assumption of higher actual benefit obligations of $30 million than the allocated amounts used in the December 31, 1998 consolidated financial statements. These amounts have been reflected as transfers between other members of a controlled group in the following disclosures. The impact of this change, an increase in the unfunded pension liability of $99 million, will be recognized in net periodic benefit costs over future periods. As a result, the 1999 net periodic benefit cost for the Company increased by approximately $7 million. The PBGC agreement did not require the Company to make additional contributions to the Nabisco Plan.

Effective in 1999, all assets and benefit obligations for Nabisco Holdings and NGH were consolidated in the following disclosures. However, the net periodic benefit cost for former employees of NGH continues to be accrued in the financial statements of NGH.

In addition to the change in unfunded pension liability in the Nabisco Plan described above, $28 million of unfunded benefit obligations were reflected as a transfer from other members of a controlled group due to benefit obligations attributable to former employees of NGH. All of the liabilities attributable to these obligations are accrued in the financial statements of NGH.

The portion of the unfunded (benefit) surplus obligation for pension benefits attributable to the Company was $(117) million and $98 million as of December 31, 1998 and 1999, respectively.

	Pension Benefits		Other Benefits	
	At December 31,		At December 31,	
	1998	1999	1998	1999
	(in millions)			
Change in benefit obligation				
Benefit obligation at January 1	$1,718	$1,693	$ 531	$ 460
Service cost	46	50	6	6
Interest cost	114	112	33	32
Plan amendments	(6)			
Actuarial gain	(6)	(206)	(68)	(31)
Foreign currency translation	(15)	15	(2)	2
Benefits paid	(158)	(158)	(40)	(44)
Transfer from other members of controlled group		58		4
Obligations at December 31	1,693	1,564	460	429
Change in plan assets				
Fair value of plan assets at January 1	1,568	1,576		
Actual return on plan assets	141	247		
Employer contributions	40	36	40	44
Plan participants' contributions	1	1		
Foreign currency translation	(16)	17		
Benefits paid	(153)	(158)	(40)	(44)
Settlements	(5)			
Transfer to other members of controlled group		(69)		
Fair value of plan assets at December 31	1,576	1,650	--	--
Funded status				
Funded status at December 31	(117)	86	(460)	(429)
Unrecognized transition asset	(2)	(1)	(3)	(2)
Unrecognized prior service cost	5	4		
Unrecognized loss (gain)	35	(189)	37	8
Net amount recognized	$ (79)	$ (100)	$(426)	$(423)
Amounts recognized in the Consolidated Balance Sheets				
Prepaid benefit cost	$ 19	$ 22		
Accrued benefit liability	(112)	(135)	$(426)	$(423)
Intangible asset	2	2		
Accumulated other comprehensive income	12	11		
Net amount recognized	$ (79)	$ (100)	$(426)	$(423)

Of the net amount recognized at December 31, 1999, $(16) million for pension benefits and $(6) million for other benefits was recorded by NGH.

Plan assets consist primarily of a diversified portfolio of fixed-income investments, debt and equity securities and cash equivalents. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were as follows:

	At December 31,	
	1998	1999
	(in millions)	
Projected benefit obligation	$95	$67
Accumulated benefit obligation	92	67
Fair value of plan assets	40	3

The components of net periodic benefit cost are as follows:

	Pension Benefits			Other Benefits		
	For the Years Ended December 31,					
	1997	1998	1999	1997	1998	1999
	(in millions)					
Service cost	$ 39	$ 46	$ 50	$ 7	$ 6	$ 6
Employee contributions			(1)			
Interest cost	116	114	112	36	33	32
Expected return on plan assets	(129)	(135)	(133)			
Amortization of transition asset	(1)	(1)	(1)	(3)	(2)	(3)
Amortization of prior service cost	3	3	3			
Amortization of net (gain) loss	(2)	(2)	1			1
Settlement loss		2				
Net periodic benefit cost	26	27	31	$40	$37	$36
Multi-employer and defined contribution plans	33	32	32			
Total pension benefit cost	$ 59	$ 59	$ 63			

Of the 1999 net periodic benefit cost, approximately $1 million for pension benefits and less than $1 million for other benefits was recorded by NGH.

The principal plans used the following weighted average actuarial assumptions for accounting purposes:

	Pension Benefits		Other Benefits	
	1998	1999	1998	1999
Discount rate	6.9%	7.9%	6.8%	8.0%
Expected return on plan assets	9.3	9.3		
Rate of compensation increase	4.7	4.6		

The assumed health care cost trend rate was 5.5% in 1999 and 5% in 2000 and thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in the assumed health care cost trend rates would have had the following impact on 1999 amounts:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
	(in millions)	
Increase (decrease) in postretirement benefit cost	$ 3	$ (2)
Increase (decrease) in postretirement benefit obligation	31	(27)

Note 16. Shareholders' Equity:

The authorized capital stock of Nabisco Holdings consists of (a) 1 billion shares of common stock, par value $.01 per share, of which (i) 265,000,000 shares have been designated as Class A common stock, of which 51,819,653 shares are issued, (ii) 213,250,000 shares have been designated as Class B common stock, all of which are issued and outstanding, (iii) the remaining 521,750,000 shares may be designated by the board of directors as either Class A or Class B common stock prior to issuance, and (b) 75,000,000 shares of preferred stock, par value $.01 per share, of which no shares have been issued.

The holders of Class A common stock and Class B common stock generally have identical rights except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to ten votes per share on all matters to be voted on by shareholders. Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock.

NGH beneficially owns 100% of the Class B common stock of Nabisco Holdings which represents 80.6% of the economic interest and 97.6% of the combined voting power of the common stock as of December 31, 1999. Any shares of Class B common stock disposed of by NGH shall automatically convert to shares of Class A common stock on a share-for-share basis upon such disposition, except for (i) a disposition to one of its subsidiaries or (ii) a disposition effected in connection with a transfer of Class B common stock to the shareholders of NGH as a dividend intended to be on a tax-free basis in which case the conversion of the Class B common stock to Class A common stock will be structured as necessary to preserve the tax-free status of the transfer.

In December 1997, Nabisco Holdings' board of directors authorized the repurchase from time to time of up to 2 million shares of Class A common stock. As of December 31, 1999, Nabisco Holdings had reacquired 1,550,000 shares, of which 1,143,054 shares were used to satisfy awards under the Nabisco Holdings Corp. 1994 Long Term Incentive Plan (the "Nabisco LTIP").

During 1996, 54,981 shares of Class A common stock were sold in connection with purchase stock grants awarded under the Nabisco LTIP. The shares were purchased at their fair market value for a total of approximately $2 million by two then current members of the board of directors. The borrowings are presented as notes receivable in the Consolidated Statement of Shareholders' Equity.

Nabisco Holdings' dividends are funded from matching dividends paid on the same dates by Nabisco, Inc., its wholly-owned subsidiary.

Stock plans:

The Nabisco LTIP provides for grants of incentive stock options, other stock options, stock appreciation rights, restricted stock, purchase stock, dividend equivalent rights, performance units, performance shares, or other stock-based grants. Awards under the Nabisco LTIP may be granted to key employees of, or other persons having a unique relationship to Nabisco Holdings and its subsidiaries, all as determined by the compensation committee of the board of directors. Members of the compensation committee are ineligible for grants. The maximum number of shares which may be granted in respect of all awards during the term of the Nabisco LTIP is 28.3 million shares of Class A common stock. The Nabisco LTIP has limits as to the amount of shares which may be issued. The annually granted stock options have a 15 year term for the 1995 grants and a 10 year term for grants made thereafter. Stock option grants vest over three years, and are exercisable three years after the grant date. The exercise price is the fair market value of the stock at the grant date.

Directors of Nabisco Holdings who have never been employees of NGH or any of its subsidiaries are eligible to be granted options under a separate plan which provides for the issuance of a maximum of 300,000 shares of Class A common stock. The option terms are substantially similar to the Nabisco LTIP. Stock option grants during 1997, 1998 and 1999 were 6,000, 3,600 and 4,700 shares, respectively.

As of December 31, 1999, 9,108,434 shares were available for future grants under the Nabisco Holdings stock plans. The changes in stock options under the stock plans were as follows:

	1997		1998		1999	
Options in thousands	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Balance at beginning of year	11,728	$28.57	14,160	$30.15	15,514	$32.75
Granted	2,759	37.22	2,831	45.51	3,604	42.61
Exercised			(833)	27.50	(278)	28.89
Cancelled	(327)	33.13	(644)	38.59	(528)	42.62
Balance at end of year	14,160	30.15	15,514	32.75	18,312	34.46
Exercisable at end of year	--		7,806	26.67	10,222	28.52

Options in thousands, life in years Range of Exercise Prices	Options Outstanding: Number Outstanding At 12/31/99	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$24.50-$27.88	4,476	10.1	$25.61
$28.00-$32.94	3,237	10.0	28.26
$33.00-$36.94	2,516	6.2	33.99
$37.00-$43.31	5,700	8.3	40.44
$44.88-$52.88	2,383	8.1	45.69
	18,312	8.7	34.46

Nabisco Holdings recognizes and measures costs related to employee stock plans utilizing the intrinsic value based method. Had compensation expense been determined based upon the fair value of awards granted during 1997, 1998 and 1999, Nabisco Holdings' results would have been as indicated in the table below.

	For the Years Ended December 31,					
	1997		1998		1999	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income (loss) (in millions)..............	$ 405	$ 387	$ (71)	$ (89)	$ 357	$ 337
Net income (loss) per share--basic...........	1.53	1.46	(.27)	(.34)	1.35	1.27
Net income (loss) per share--diluted.........	1.51	1.44	(.27)	(.34)	1.34	1.27
Weighted-average fair value of options granted during the year...................		12.55		14.27		13.17

For options granted, fair value was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	1997	1998	1999
Dividend yield..	1.7%	1.7%	1.9%
Expected volatility......................................	23%	23%	26%
Risk-free interest rate..................................	6.6%	5.7%	5.1%
Expected option life (years).............................	7	7	7

Note 17. Segment Information:

Operating segment data:

Nabisco Holdings is a holding company whose subsidiaries are engaged in the manufacture, distribution and sale of cookies, crackers, and other food products. Nabisco Holdings is organized and reports its results of operations in three business segments: Nabisco Biscuit, the U.S. Foods Group and the International Food Group which are segregated by both product and geographic area.

The Company evaluates performance and allocates resources based on ongoing operating company contribution ("OCC"). Ongoing OCC for each reportable segment is operating income before amortization of intangibles and exclusive of restructuring charges and credits, restructuring-related expenses and net gains on divested businesses. The accounting policies of the segments are the same as those described in Note 1.

Nabisco Biscuit manufactures and markets cookies and crackers in the United States. Its products are sold to major grocery and other large retail chains through its own direct store delivery system. The U.S. Foods Group represents other food operations in the United States and manufactures and markets sauces and condiments, pet snacks, hot cereals, dry mix desserts, gelatins, non-chocolate candy, gum, nuts and salty snacks. It sells to major grocery chains, national drug and mass merchandisers, convenience channels and warehouse clubs through a direct sales force. It also sells to small retail grocery chains and regional mass merchandisers through independent brokers. The International Food Group conducts the Company's international operations, outside the United States, primarily in markets in Latin America, Canada, certain markets in Europe, the Middle East, Africa and Asia. The International Food Group primarily produces and markets biscuits, powdered dessert and dry mixes, baking powder, pasta, juices, milk products and other grocery items.

No customer accounted for 10% or more of consolidated net sales in 1997 and 1998 and one of Nabisco's customers accounted for approximately 11% of consolidated net sales in 1999. Sales to this customer are included in the net sales amount for each of our business segments.

	For the Years Ended December 31,		
	1997	1998	1999
	(in millions)		
Net sales from external customers:			
Nabisco Biscuit	$3,545	$3,542	$3,640
U.S. Foods Group	1,988	2,047	2,246
International Food Group	2,569	2,513	2,382
Total ongoing	8,102	8,102	8,268
U.S. Foods Group	616	287	
International Food Group	16	11	
Total divested	632	298	--
Total	$8,734	$8,400	$8,268
Segment operating company contribution:			
Nabisco Biscuit	$ 691	$ 542	$ 557
U.S. Foods Group	281	301	338
International Food Group	236	205	200
Total ongoing	1,208	1,048	1,095
U.S. Foods Group	97	38	
International Food Group	2	1	
Total divested	99	39	--
Total segment operating company contribution	1,307	1,087	1,095
Restructuring-related expenses	31	56	76
Net gain on divested businesses	(32)	(14)	
Amortization of trademarks and goodwill	226	221	213
Restructuring charges (credits)		530	(67)
Consolidated operating income	1,082	294	873
Interest and debt expense	326	296	260
Other expense, net	32	29	31
Income (loss) before income taxes	$ 724	$ (31)	$ 582

	For the Years Ended December 31,		
	1997	1998	1999
	(in millions)		
Depreciation:			
Nabisco Biscuit	$148	$146	$146
U.S. Foods Group	49	46	42
International Food Group	80	81	77
Total	$277	$273	$265

	For the Years Ended December 31,		
	1997	1998	1999
	(in millions)		
Capital expenditures:			
Nabisco Biscuit	$206	$188	$128
U.S. Foods Group	64	49	42
International Food Group	122	103	71
Total	$392	$340	$241

	At December 31,	
	1998	1999
	(in millions)	
Segment assets:		
Nabisco Biscuit	$ 2,124	$ 2,170
U.S. Foods Group	840	1,506
International Food Group	2,579	2,644
Total segment assets	5,543	6,320
Unallocated intangibles, net (1)	5,574	5,387
Consolidated assets	$11,117	$11,707

Geographic segment information:

	Net Sales For the Years Ended December 31,			Net Property At December 31,	
	1997	1998	1999	1998	1999
	(in millions)				
United States	$6,149	$5,876	$5,886	$2,023	$2,188
Latin America	1,438	1,428	1,249	550	499
Other	1,147	1,096	1,133	374	400
	$8,734	$8,400	$8,268	$2,947	$3,087

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(1) Represents unallocated goodwill, trademarks and tradename resulting from the 1989 acquisition of Nabisco Holdings' parent company.

Note 18. Quarterly Results of Operations (Unaudited):

The following is a summary of 1998 and 1999 quarterly results of operations and per share data for Nabisco Holdings:

	First	Second	Third	Fourth
	(in millions, except per share amounts)			
1998(1)				
Net sales	$ 1,962	$ 2,131	$ 2,098	$ 2,209
Gross profit	837	944	932	1,004
Operating income (loss)	182	(210)	184	138
Net income (loss)	55	(200)	55	19
Per share data:				
Net income (loss)--basic	$ .21	$ (.76)	$ .21	$ .07
Net income (loss)--diluted	.21	(.76)	.21	.07
Dividends declared	.175	.175	.175	.175
Market price				
High	50 3/8	54 1/4	39 3/16	42 3/8
Low	38	34 7/8	31 3/4	33 3/4

	First	Second	Third	Fourth
	(in millions, except per share amounts)			
1999(2)				
Net sales	$ 1,855	$ 2,023	$ 2,057	$ 2,333
Gross profit	828	934	924	1,080
Operating income	134	177	252	310
Income before extraordinary item	36	65	117	142
Net income	36	65	114	142
Per share data:				
Net income--basic	$ .14	$ .25	$ .43	$ .54
Net income--diluted	.13	.24	.43	.53
Dividends declared	.1875	.1875	.1875	.1875
Market price				
High	45 13/16	43 1/2	43 15/16	38 1/8
Low	38 5/16	37 9/16	34 7/16	31 3/16

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(1) The second quarter of 1998 includes a $406 million ($268 million after tax or $1.01 per share) restructuring charge and $6 million expense ($4 million after tax or $.02 per share) of restructuring related expenses.

The third quarter of 1998 includes a net gain of $14 million ($2 million after tax or $.01 per share) from divestitures and $15 million ($8 million after tax or $.03 per share) of restructuring related expenses.

The fourth quarter of 1998 includes a $124 million ($94 million after tax or $0.35 per share) restructuring charge and $35 million ($21 million after tax or $.08 per share) of restructuring related expenses.

(2) The first quarter of 1999 includes $15 million ($9 million after tax or $.04 per share) of restructuring related expenses.

The second quarter of 1999 includes $19 million ($11 million after tax or $.04 per share) of restructuring related expenses.

The third quarter of 1999 includes $12 million ($8 million after tax or $.03 per share) of restructuring related expenses and a credit of $59 million ($44 million after tax or $.16 per share) applicable to the June and December 1998 restructuring programs.

The fourth quarter of 1999 includes $30 million ($18 million after tax or $.07 per share) of restructuring related expenses and a credit of $8 million ($4 million after tax or $.02 per share) applicable to the June and December 1998 restructuring programs.

Note 19. Subsequent Event (Unaudited):

On December 14, 1999, the Company announced its participation in a joint venture, Burlington Biscuits plc ("Burlington"), with Hicks, Muse, Tate & Furst Limited ("HMTF"), an investment firm, to bid for 100% of United Biscuits (Holdings) plc ("UB"). Subsequently, Burlington acquired 29.9% of UB. As announced on March 20, 2000, the Company and HMTF have entered into definitive agreements under which: (i) the Company and HMTF will join a consortium of investors, Finalrealm Limited ("Finalrealm"), also bidding for UB; (ii) an associate of Finalrealm will acquire Burlington's 29.9% interest in UB, giving Finalrealm a 47.6% interest in UB; (iii) Finalrealm's cash offer of 265 pence per UB share becomes a Final Offer under the City Code and is extended until April 5, 2000; (iv) subject to Finalrealm being entitled to exercise compulsory acquisition rights in respect of minority interests in UB and regulatory competition clearance, the Company will contribute approximately $45 million in cash and its operations in Spain, Portugal and the Middle East (in 1999, these operations had net sales of approximately $290 million) to an associate of Finalrealm; (v) Finalrealm has agreed to procure the sale to the Company of UB's operations in China, Hong Kong and Taiwan conditional on the Final Offer becoming or being declared wholly unconditional (in 1999, these operations had net sales of approximately $66 million); and (vi) following completion of the Final Offer and its related transactions, the Company would have an equity interest of 24.6% in the joint venture.

Upon completion, the joint venture will be comprised of UB businesses in the United Kingdom, France and the Benelux countries, the Company's operations named above and HMTF's UK Horizon Biscuits business.

NABISCO HOLDINGS CORP.

CONSOLIDATED CONDENSED BALANCE SHEET
(in millions of dollars)
(unaudited)

	At September 30, 2000
ASSETS	
Current assets:	
Cash and cash equivalents	$ 140
Accounts receivable, net of allowance for doubtful accounts of $39	555
Deferred income taxes	111
Inventories	951
Prepaid expenses and other current assets	72
Total current assets	1,829
Property, plant and equipment--at cost	4,997
Less accumulated depreciation	(2,055)
Net property, plant and equipment	2,942
Trademarks, net of accumulated amortization of $1,298	3,343
Goodwill, net of accumulated amortization of $1,060	3,045
Other assets and deferred charges	451
	$11,610
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Notes payable	$ 80
Accounts payable	359
Accrued liabilities	1,089
Current maturities of long-term debt	100
Income taxes accrued	173
Total current liabilities	1,801
Long-term debt	3,834
Other noncurrent liabilities	783
Deferred income taxes	1,143
Contingencies	
Shareholders' equity:	
Class A common stock (51,819,593 shares issued and outstanding)	1
Class B common stock (213,250,000 shares issued and outstanding)	2
Paid-in capital	4,097
Retained earnings	224
Accumulated other comprehensive loss	(273)
Notes receivable on common stock purchases	(2)
Total shareholders' equity	4,049
	$11,610

See notes to consolidated condensed financial statements.

NABISCO HOLDINGS CORP.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(in millions of dollars, except per share amounts)
(unaudited)

	For the Nine Months Ended September 30, 1999	2000
Net sales	$5,935	$6,580
Costs and expenses:		
Cost of products sold	3,249	3,594
Selling, advertising, administrative and general expenses	2,021	2,231
Amortization of trademarks and goodwill	161	165
Restructuring credit	(59)	(27)
Operating income	563	617
Interest and debt expense	(193)	(213)
Other expense, net	(22)	(10)
Income before income taxes	348	394
Provision for income taxes	130	158
Income before extraordinary item	218	236
Extraordinary item-loss on early extinguishment of debt, net of $2 of income taxes	(3)	
Net income	$ 215	$ 236
Basic net income (loss) per common share:		
Income before extraordinary item	$ .82	$ .89
Extraordinary item	(.01)	
Net income	$ .81	$ .89
Diluted net income (loss) per common share:		
Income before extraordinary item	$ .82	$ .88
Extraordinary item	(.01)	
Net income	$ .81	$ .88
Dividends declared per common share	$.5625	$.5625
Average number of common shares outstanding (in thousands):		
Basic	264,676	264,843
Diluted	266,867	268,001

See notes to consolidated condensed financial statements.

NABISCO HOLDINGS CORP.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(in millions of dollars)
(unaudited)

	For the Nine Months Ended September 30, 1999	2000
Net income	$215	$236
Other comprehensive (loss) income:		
Reclassification of cumulative translation losses related to businesses sold included in net income		51
Cumulative translation adjustment	(133)	(31)
Other comprehensive (loss) income, net of income tax	(133)	20
Comprehensive income	$ 82	$256

Total comprehensive income for the quarters ended September 30, 1999 and 2000 was $97 and $74, respectively.

See notes to consolidated condensed financial statements.

NABISCO HOLDINGS CORP.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in millions of dollars)
(unaudited)

	For the Nine Months Ended September 30, 1999	2000
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	$ 215	$ 236
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation of property, plant and equipment	198	200
Amortization of intangibles	161	165
Deferred income tax provision	27	30
Restructuring credit	(59)	(27)
Restructuring payments	(65)	(46)
Accounts receivable, net	(49)	49
Inventories	(184)	(108)
Prepaid expenses and other current assets	(8)	(8)
Accounts payable	(109)	(259)
Accrued liabilities	94	72
Income taxes accrued	(21)	75
Extraordinary loss on early retirement of debt, net	3	
Other, net	(13)	25
Net cash flows from operating activities	190	404
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(150)	(131)
Proceeds from sale of assets	27	31
Acquisition of business	(107)	
Investment in Finalrealm transaction		(151)
Net cash flows used in investing activities	(230)	(251)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Net proceeds from the issuance of long-term debt	497	111
Repayments of long-term debt	(324)	(222)
(Decrease) increase in notes payable	(8)	133
Dividends paid on common stock	(146)	(149)
Repurchases of Class A common stock	(12)	(13)
Proceeds from exercise of Class A common stock options	7	20
Net cash flows from (used in) financing activities	14	(120)
Effect of exchange rate changes on cash and cash equivalents	(9)	(3)
Net change in cash and cash equivalents	(35)	30
Cash and cash equivalents at beginning of period	111	110
Cash and cash equivalents at end of period	$ 76	$ 140
Income taxes paid, net of refunds	$ 126	$ 53
Interest paid	$ 204	$ 211

See notes to consolidated condensed financial statements.

NABISCO HOLDINGS CORP.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

Note 1. Interim Reporting and Results of Operations:

General:

For interim reporting purposes, certain costs and expenses are charged to operations in proportion to the estimated total annual amount expected to be incurred. The results for the nine months ended September 30, 2000 are not necessarily indicative of the results to be expected for the year ended December 31, 2000.

In management's opinion, the accompanying unaudited consolidated condensed financial statements (the "Consolidated Condensed Financial Statements") of Nabisco Holdings Corp. ("Nabisco Holdings" or the "Company") contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods presented. The Consolidated Condensed Financial Statements should be read in conjunction with the consolidated financial statements and footnotes for the year ended December 31, 1999 included herein.

Business disposals:

In April 2000, Nabisco Holdings joined Finalrealm Limited ("Finalrealm"), a consortium of investors, which acquired the equity of United Biscuits (Holdings) plc ("UB"), a United Kingdom company. At that time, Nabisco Holdings invested approximately $45 million in cash in DeluxeStar Limited ("DeluxeStar"), an affiliate of Finalrealm. In July 2000, Nabisco Holdings sold its operations in Spain, Portugal and the Middle East, which included $10 million in cash and cash equivalents, to DeluxeStar and agreed to pay an additional $41 million in cash to Finalrealm. In exchange for the total cash consideration and businesses sold, Nabisco Holdings received mandatorily redeemable discounted preferred stock from DeluxeStar and warrants from Bladeland Limited ("Bladeland"), the indirect parent company of Finalrealm and DeluxeStar. The discounted preferred stock and warrants were fair valued at approximately $277 million based on a valuation opinion received from an independent investment banker. The discounted preferred stock accretes non-cash dividend income at an annual rate of 11.72% and is mandatorily redeemable in 2049. The discounted preferred stock converts into 26.51% of the common equity of Bladeland upon the future exercise of the warrants. The warrants are exercisable at maturity, which is in 25 years, upon an initial public offering by Bladeland, or upon a change of control in Bladeland, in which the ownership of the equity investors becomes less than 50%. These securities are being accounted for on a cost basis.

The sale of operations resulted in the recognition of a pre-and-after tax loss of approximately $18 million that was recorded in selling, advertising, administrative and general expenses in the quarter ended June 30, 2000. In 1999, these operations had annual net sales of approximately $290 million.

As a result of the transaction, Nabisco Holdings recorded $12 million of investor financing fee income during the third quarter of 2000 in other expense, net.

Business acquisitions:

In November 1999, Nabisco Holdings acquired certain assets and liabilities of Favorite Brands International, Inc., a company operating under Chapter 11 of Title 11 of the U.S. Code. As of June 30, 2000, the purchase price allocation was completed and resulted in total goodwill of $106 million, an increase of $38 million from December 31, 1999. The after-tax net increase in goodwill consisted of:

	(in millions)
Fair value adjustments to:	
Property, plant and equipment	$16
Certain working capital items	12
Severance accruals	5
Contract exit cost accruals	5
	$38

In July 2000, Nabisco Holdings acquired UB's operations in China, Hong Kong and Taiwan for approximately $99 million as part of its agreement to join the consortium of investors discussed above. In 1999, these operations had annual net sales of approximately $66 million.

Recently issued accounting pronouncements:

During the second quarter of 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires that all derivative instruments be recorded on the consolidated balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Nabisco Holdings will adopt SFAS No. 133, as amended, on January 1, 2001 but has not yet determined the impact that such adoption or subsequent application will have on its financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. Nabisco Holdings is required to adopt SAB No. 101, as amended, in the fourth quarter of 2000. SAB No. 101 provides additional guidance on revenue recognition, as well as criteria for when certain revenue is generally realized and earned, and also requires the deferral of incremental direct selling costs. Nabisco Holdings has determined that the impact of adoption or subsequent application of SAB No. 101 will not have a material effect on its financial position or results of operations.

During the second quarter 2000, the Emerging Issues Task Force issued EITF Issue No. 00-14, Accounting for Certain Sales Incentives. EITF No. 00-14 addresses the recognition, measurement and statement of income classification of various sales incentives and will be effective for the fourth quarter of 2000. Nabisco Holdings has determined that the impact of adoption will be a reduction of approximately 1% to 2% on its net sales, with no impact on Nabisco Holdings' net income. Certain sales incentives, principally for consumer coupon redemption expenses, currently included in selling, advertising, administrative and general expenses will be reclassified as a reduction of net sales and, upon adoption, prior period amounts will be restated for comparative purposes.

In September 2000, the FASB issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, which replaced SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration. Nabisco Holdings will adopt SFAS No. 140 for transactions occurring after March 31, 2001. Nabisco Holdings has not yet determined the impact that such adoption or subsequent application will have on its financial position or results of operations.

1998 restructuring charges:

In the second and fourth quarters of 1998, Nabisco Holdings recorded restructuring charges of $406 million ($268 million after tax) and $124 million ($94 million after tax), respectively. In the second quarter of 2000, Nabisco Holdings recorded a net reduction of $27 million in the previously recorded restructuring expense due to higher than anticipated proceeds from assets sold and lower than anticipated spending primarily in severance programs. This restructuring credit combined with the $67 million net restructuring credit recorded in 1999 resulted in a total net charge for the 1998 restructuring programs of $436 million ($296 million after tax). These restructuring programs were undertaken to streamline operations and improve profitability and have resulted in the elimination of approximately 6,900 employee positions.

The June 1998 program was completed in 1999 and the December 1998 program was completed as of June 30, 2000.

The key elements of the restructuring programs were:

	Severance and Benefits	Contract Terminations	Asset Impairments	Other Exit Costs	Total
	(in millions)				
Sales force reorganizations........	$ 37	$ 3			$ 40
Distribution reorganizations........	16	8	$ 9		33
Staff reductions........	83		3		86
Manufacturing costs reduction initiatives..	22		8		30
Plant closures..........	46	3	217	$ 15	281
Product line rationalizations.......	4	4	20	32	60
Total 1998 restructuring reserves.............	208	18	257	47	530
1999 net restructuring credit.................	(50)	1	(14)	(4)	(67)
2000 net restructuring credit.................	(4)	(3)	(21)	1	(27)
Total program reserves.............	154	16	222	44	436
Charges and payments:					
Cumulative through December 31, 1999......	(132)	(14)	(233)	(35)	(414)
Six months ended June 30, 2000..............	(22)	(2)	11	(9)	(22)
Total charges and payments, net of cash proceeds............	(154)	(16)	(222)	(44)	(436)
Program reserves as of June 30, 2000..........	$ --	$ --	$ --	$ --	$ --

The key elements of the restructuring programs, after the restructuring credits of $94 million were:

	Severance and Benefits	Contract Terminations	Asset Impairments	Other Exit Costs	Total
	(in millions)				
Sales force reorganizations........	$ 16	$ 3			$ 19
Distribution reorganizations........	10	4	$ (2)		12
Staff reductions........	56	1	3		60
Manufacturing costs reduction initiatives..	19		8		27
Plant closures..........	51	3	192	$ 15	261
Product line rationalizations.......	2	5	21	29	57
Total restructuring charges.............	$ 154	$ 16	$ 222	$ 44	$ 436

Total charges and payments include net cash expenditures, non-cash charges primarily for asset impairments and committed severance and benefits to be paid. The total cash payments, net of cash proceeds applied against the restructuring reserves totaled $122 million, which is comprised of cumulative cash expenditures of $170 million and cumulative cash proceeds of $48 million. For the nine months ended September 30, 2000, cash payments, net of cash proceeds totaled $19 million, which is comprised of $46 million of cash expenditures and $27 million of cash proceeds which were applied against the restructuring reserves. Although projects have been completed, proceeds to be collected and certain cash payments, primarily severance and benefits that are paid over time, are being transacted after the program completion dates. This is expected to result in a net cash inflow of approximately $7 million subsequent to September 30, 2000.

Note 2. Change of Control:

On June 25, 2000, the board of directors of Nabisco Group Holdings Corp. ("NGH") approved two major transactions: (1) the sale of NGH's 80.5% interest in Nabisco Holdings to Philip Morris Companies Inc. (the "Nabisco Sale") pursuant to a merger in which Philip Morris Companies Inc. will acquire all of the outstanding Nabisco Holdings common stock for $55 per share (the "Nabisco merger"), and (2) the subsequent acquisition of NGH by R. J. Reynolds Tobacco Holdings, Inc. ("RJR") pursuant to a merger in which RJR will acquire all of the outstanding NGH common stock for $30 per share (the "NGH merger"). Completion of the Nabisco merger is subject to customary closing conditions, including receipt of regulatory approvals. Completion of the NGH merger is also subject to customary closing conditions, including receipt of regulatory approvals and is conditioned on the completion of the Nabisco Sale. There can be no assurance that such approvals will be obtained. On October 27, 2000 the shareholders of NGH approved the acquisition of Nabisco Holdings by Philip Morris Companies Inc. and the subsequent acquisition of NGH by RJR as discussed in Note 5--Subsequent Events. The transactions are expected to close during the fourth quarter of 2000.

The sale of Nabisco Holdings requires approval by holders of a majority of the outstanding shares of NGH common stock because the Nabisco Holdings shares constitute substantially all of the assets of NGH. NGH has entered into a voting and indemnity agreement with Philip Morris Companies Inc. with respect to the sale of Nabisco Holdings which generally provides that, subject to receiving approval of the sale of Nabisco Holdings from NGH shareholders, NGH will promptly vote in favor of the Nabisco merger. The approval by NGH, as discussed above, is the only Nabisco Holdings shareholder approval required to complete the Nabisco merger.

All costs and expenses incurred in connection with the Nabisco merger agreement and related transactions will be paid by the company incurring such costs or expenses, except that Nabisco Holdings and NGH have agreed that Nabisco Holdings will be responsible for fees and expenses of the financial, legal and other advisors to Nabisco Holdings and NGH up to $50 million, and NGH will be responsible for all such fees and expenses in excess of $50 million.

In connection with the Nabisco merger and the NGH merger, Nabisco Holdings incurred costs during the third quarter and first nine months of 2000 of $21 million for financial, legal and other advisor fees. In addition, in accordance with the terms of the Nabisco merger agreement, and upon depletion of its existing treasury stock inventory, Nabisco Holdings paid cash to satisfy the excess of the market price of Nabisco Holdings stock at the time of exercise, over the exercise price of Nabisco Holdings stock options. As a result, Nabisco Holdings recognized compensation expense of $28 million during the third quarter and first nine months of 2000. These costs have been classified as selling, advertising, administrative and general expenses in the accompanying Consolidated Condensed Statement of Income.

Note 3. Inventories:

The major classes of inventory are shown in the table below:

	At September 30, 2000 (in millions)
Finished products	$605
Raw materials	211
Work in process	32
Other	103
Total	$951

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS--(Continued)
(unaudited)

Note 4. Segment Reporting:

Nabisco Holdings is a holding company whose subsidiaries are engaged in the manufacture, distribution and sale of cookies, crackers and other food products. Nabisco Holdings is organized and reports its results of operations in three business segments: Nabisco Biscuit Company, the Nabisco Foods Company and the International Food Group which are segregated by both product and geographic area.

Nabisco Holdings evaluates performance and allocates resources based on operating company contribution ("OCC"). OCC for each reportable segment is operating income before amortization of intangibles and exclusive of a restructuring credit, loss on sale of businesses, restructuring-related expenses and costs associated with the Nabisco merger and the NGH merger. Such costs include the cash buyout of exercised Nabisco Holdings stock options and financial, legal and other advisor fees.

	For the Nine Months Ended September 30, (in millions)	
	1999	2000
Net sales from external customers:		
Nabisco Biscuit Company	$2,688	$2,779
Nabisco Foods Company	1,527	2,112
International Food Group	1,720	1,689
Total	$5,935	$6,580
Segment operating company contribution:		
Nabisco Biscuit Company	$ 386	$ 439
Nabisco Foods Company	196	271
International Food Group	129	112
Total segment operating company contribution	711	822
Cash buyout of exercised Nabisco Holdings stock options		(28)
Financial, legal and other advisor fees		(21)
Loss on sale of businesses		(18)
Restructuring credit	59	27
Restructuring-related expenses	(46)	
Amortization of trademarks and goodwill	(161)	(165)
Consolidated operating income	563	617
Interest and debt expense	(193)	(213)
Other expense, net	(22)	(10)
Income before income taxes	$ 348	$ 394

Note 5. Subsequent Events:

On October 27, 2000, the shareholders of NGH approved the acquisition of Nabisco Holdings by Philip Morris Companies Inc. and the subsequent acquisition of NGH by RJR.

In November 2000, Nabisco Holdings signed definitive agreements for the sale of its domestic breath mints, gum, dry mix dessert and baking powder businesses. These transactions are conditioned on completion of the acquisition of Nabisco Holdings by Philip Morris Companies Inc., and are subject to customary closing conditions, including receipt of regulatory approvals. In 1999, these businesses had net sales and operating income of approximately $314 million and $96 million, respectively.

Appendix

"MEET THE MANAGEMENT OF KRAFT"
PRESENTATION FOR KRAFT FOODS INC.

Prospective investors will be able to log onto www.kraftipo.com, www.csfb.com/ipo/us/, www.csfbdirect.com and www.salomonsmithbarney.com where a prospectus will be available for review. Within designated sections of the prospectus, including the "Table of Contents" and the "Underwriting" section of the prospectus, an embedded hyperlink {click here for "Meet the Management of Kraft" presentation} will provide exclusive access to the "Meet the Management of Kraft" presentation. This presentation highlights selected information contained elsewhere in the prospectus. This presentation does not contain all of the information that you should consider before investing in our Class A common stock. You should read the entire prospectus carefully, including the "Risk Factors" and our financial statements and notes to those financial statements, before making an investment decision.

I. Visual: Logo

Imagery: Large Kraft logo.

II. Visual: Meet the Management of Kraft

Imagery: Border and Kraft logo.

Visual Text: Heading: "Meet the Management of Kraft." "Betsy Holden." "Roger Deromedi." "Co-CEOs, Kraft Foods Inc."

Script: (Betsy Holden): "Hello, I'm Betsy Holden, Co-Chief Executive Officer of Kraft Foods Inc. and President and Chief Executive Officer of Kraft Foods North America."

(Roger Deromedi): "Hello, I'm Roger Deromedi, Co-Chief Executive Officer of Kraft Foods Inc. and President and Chief Executive Officer of Kraft Foods International, and we're pleased to have this opportunity to tell you about our company."

III. Visual: Disclaimer

Imagery: Border and Kraft logo.

Visual Text: "Our 'Meet the Management of Kraft' presentation is part of our prospectus. This presentation highlights selected information contained elsewhere in our prospectus. This presentation does not contain all of the information that you should consider before investing in our Class A common stock. You should be sure to read our entire prospectus carefully, including the 'Risk Factors' and our financial statements and notes to those financial statements, before making an investment decision."

Script: (Betsy Holden): "Before we get started, I would like to remind you that our 'Meet the Management of Kraft' presentation is part of our prospectus. This presentation highlights selected information contained elsewhere in our prospectus. This presentation does not contain all of the information that you should consider before investing in our Class A common stock. You should be sure to read our entire prospectus carefully, including the 'Risk Factors' and our financial statements and notes to those financial statements, before making an investment decision.

With that, let's get started."

IV. Visual: Kraft Foods Worldwide

Imagery: Border and Kraft logo. Map of the world with textual overlay.

Visual Text: Heading: "Kraft Foods Worldwide." Below the heading appears the following information: "$34.7 Billion Revenue*"; "$6.3 Billion EBITDA*"; "Sales in Over 140 Countries"; and "*2000 Pro forma."

Script: (Betsy Holden): (see "Business--Overview") "Kraft is the largest branded food and beverage company headquartered in the United States and the second largest in the world based on 2000 pro forma revenue. We generated 2000 pro forma revenue of $34.7 billion and 2000 pro forma earnings before interest, income taxes, depreciation and amortization of $6.3 billion. Our brands are sold in more than 140 countries and are enjoyed in 99.6% of the households in the United States. Consumers of all ages around the world enjoy our brands, whether at home or away from home, across the entire spectrum of food and beverage occasions: breakfast, lunch, dinner and snacks."

V. Visual: Our Mission

Imagery: Border and Kraft logo. Six square bullet points on the left of the slide describing our goals.

Visual Text: Heading: "Our Mission." "Undisputed Leader of the Global Food and Beverage Industry." The six bullet points are:

. First choice of our consumers

. Indispensable partner to our retailers and other customers

. Most desired partner for strategic alliances

. Employer of choice in our industry

. Responsible citizen in our communities

. Consistent producer of industry-leading financial performance and returns for our investors

Script: (Betsy Holden): (see "Prospectus Summary--Our Goals, Strengths and Strategies--Our Goals") "Our long-term mission is to be recognized as the undisputed leader of the global food and beverage industry. To that end, we strive to be:

. The first choice of our consumers;

. An indispensable partner to our retailers and other customers;

. The most desired partner for strategic alliances;

. The employer of choice in our industry;

. A responsible citizen in our communities; and

. A consistent producer of industry-leading financial performance and returns for our investors."

VI. Visual: Our Strengths

Imagery: Border and Kraft logo. Five square bullet points on the left of the slide describing our strengths.

Visual Text: Heading: "Our Strengths." The five bullet points are:

. Superior brand portfolio

. Innovative products supported by worldclass marketing

. Successful portfolio management

. Global scale

. Management's proven ability to execute

Script: (Roger Deromedi): (see "Prospectus Summary--Our Goals, Strengths and Strategies--Our Strengths") "We intend to achieve our goals by leveraging our competitive strengths, which include:

. Our superior brand portfolio;

. Our innovative products supported by worldclass marketing;

. Our successful portfolio management;

. Our global scale; and

. Our management's proven ability to execute."

VII. Visual: Seven "Billion Dollar Brands"

Imagery: Border, Kraft logo and logos of our seven billion dollar brands: Kraft, Nabisco, Philadelphia, Jacobs, Oscar Mayer, Maxwell House and Post.

Visual Text: Heading: "Seven 'Billion Dollar Brands.' "

Script: (Roger Deromedi): (see "Business--Overview") "We have a superior brand portfolio that includes seven brands which had 2000 revenue over $1 billion. These include: Kraft, the #1 cheese brand in the world, as well as our best known brand for salad dressings, packaged dinners and other products; Nabisco, the umbrella brand for the #1 cookie and cracker business in the world; Philadelphia, the #1 cream cheese brand in the world; Jacobs, the #1 roast and ground coffee brand in Western Europe; Oscar Mayer, the #1 processed meats brand in the United States; Maxwell House, one of the leading coffee brands in the world; and Post, the #3 brand of ready-to-eat cereals in the United States."

VIII. Visual: Total of 61 Brands Over $100 Million

Imagery: Border, Kraft logo and brand logos: Life Savers, Kool-Aid, Crystal Light, Planters, Lacta, Freia, Capri Sun All Natural, Kraft Velveeta, Milka, Cool Whip, Nabisco Grahams, Polly-O, Cracker Barrel, General Foods International Coffees, Jacques Vabre, DiGiorno, Newtons, Louis Rich, Stove Top, Jack's Pizza, Marabou, Sathers, Knudsen, Cheez Whiz, Oreo, Tang, A.1., Handi-Snacks, Carte Noire, Ritz, Terry's, Claussen Cold Crisp Delicious, All Natural Breakstone's, Gevalia, Kenco, Wheat Thins, Cote d'Or, Oscar Mayer Lunchables Lunch Combinations, Jell-O, Miracle Whip, Kraft Minute Brand, Balance, Kaffee HAG, Country Time, Premium, Suchard, SnackWell's, Toblerone, Triscuit, Royal, Breyers All Natural Yogurt, Tombstone, Original Milk-Bone Brand, Chips Ahoy! and Altoids.

Visual Text: Heading: "Total of 61 Brands Over $100 Million."

Script: (Roger Deromedi): (see "Business--Overview") "In total, we have 61 brands with 2000 revenue of over $100 million, accounting for 75% of our 2000 pro forma revenue." (see "Business--Our Competitive Strengths--Our Superior Brand Portfolio") "This portfolio is one of the strongest in the food and beverage industry. Our brands enjoy consumer loyalty and trust and offer our retail customers a strong combination of growth and profitability. Our established brands also provide a powerful platform for growth driven by new products, line extensions and geographic expansion."

IX. Visual: Category Leadership Advantages

Imagery: Border and Kraft logo. Two rectangular boxes labeled with the headings "Strong Category Positions" and "Leadership Advantages." Four square bullet points appear on the left side in the first box, three square bullet points appear on the left side in the second box and a large triangular arrow appears between the boxes pointing from left to right from the first box to the second box.

Visual Text: Heading: "Category Leadership Advantages." Above the first rectangular box, the heading "Strong Category Positions" appears. The bullet points in the first box are:

- #1 in 11 global categories
- #1 in 23 of top 25 U.S. categories based on dollar shares
- #1 in 21 of top 25 U.S. categories based on volume or equivalent unit shares
- #1 in 21 of top 25 international country categories based on volume or equivalent unit shares

The arrow points to a second rectangular box. Above the second rectangular box, the heading "Leadership Advantages" appears. The bullet points in the second box are:

- Scale advantages
- Consumer loyalty
- Customer leverage

Script: (Roger Deromedi): (see "Business--Overview" and "--Strategies--Drive Global Category Leadership") "Due to our superior brand portfolio, we hold the #1 global share position in eleven product categories, including coffee, cookies, crackers, cream cheese, process cheese and snack nuts. In the United States, based on dollar shares, we hold the #1 share position in 23 of our 25 most profitable categories or, based on volume or equivalent unit shares, in 21 of these 25 categories. In addition, based on volume or equivalent unit shares, we hold the #1 share position in 21 of our 25 most profitable international country categories. Category leaders often achieve higher margins than other category participants due to the benefits of scale, consumer loyalty and retail customer emphasis that are frequently associated with category leadership."

X. Visual: Kraft Global Consumer Sectors

Imagery: Border and Kraft logo. Pie chart showing 2000 pro forma revenue contribution for Kraft's five consumer sectors: Snacks, Beverages, Cheese, Grocery and Convenient Meals.

Visual Text: Heading: "Kraft Global Consumer Sectors." "Total 2000 Pro Forma Revenue $34.7 Billion." Pie chart: Snacks--$10.6 billion; Beverages--$6.6 billion; Cheese--$6.3 billion; Grocery--$5.7 billion; and Convenient Meals--$5.5 billion.

Script: (Roger Deromedi): (see "Business--Markets and Products") "Our brand portfolio spans five core consumer sectors:

- Snacks: With 2000 pro forma revenue of $10.6 billion, consists primarily of cookies, crackers, salty snacks and confectionery;
- Beverages: With 2000 pro forma revenue of $6.6 billion, includes coffee, aseptic juice drinks and powdered soft drinks;
- Cheese: With 2000 pro forma revenue of $6.3 billion, includes natural, process and cream cheeses;

- Grocery: With 2000 pro forma revenue of $5.7 billion, consists primarily of ready-to-eat cereals, enhancers and desserts; and

- Convenient Meals: With 2000 pro forma revenue of $5.5 billion, includes frozen pizza, packaged dinners, lunch combinations and processed meats."

XI. Visual: New Products Drive Sales Growth

Imagery: Border and Kraft logo. Two column bar chart showing 2000 pro forma revenue from new products since 1998 ($2.8 billion) and since 1996 ($4.1 billion).

Visual Text: Heading: "New Products Drive Sales Growth." "2000 Pro Forma Revenue from New Products."

Script: (Roger Deromedi): (see "Business--Our Competitive Strengths--Innovative Products Supported by Worldclass Marketing") "We maintain strong and vibrant brands and nurture their growth by developing new and innovative products and line extensions that appeal to consumer preferences. We also introduce to new geographic markets products that have been successful in other markets. We support all of these efforts with worldclass marketing and a significant investment in research and development. As a result, new products introduced from 1998 to 2000 contributed nearly $3 billion to 2000 pro forma revenue, and new products introduced since 1996 contributed over $4 billion to 2000 pro forma revenue."

XII. Visual: New Product Growth: Lunchables

Imagery: Border and Kraft logo. Box containing a picture of Lunchables products: packaged Lean Turkey Breast and Cheddar Lunchables meal, packaged Lean Ham and Swiss Lunchables meal, five crackers, five slices of cheese and four pieces of meat on a blue mat on top of a checkered cloth. Two column bar chart showing Lunchables revenue in 1989 ($60 million) and 2000 (>$600 million); within the bar for 2000 there is a dotted line separating the U.S. and international portions. A diagonal dotted line connects the upper right side of the bar for 1989 to the upper left side of the bar for 2000.

Visual Text: Heading: "New Product Growth: Lunchables."

Script: (Roger Deromedi): (see "Business--Our Competitive Strengths--Our Superior Brand Portfolio" and "--Innovative Products Supported by Worldclass Marketing--Innovative Products with Consumer Appeal") "Take for example our Oscar Mayer Lunchables ready-to-eat lunch combinations. Here, we created a new category of conveniently packaged meals, snacks, beverages, and desserts. Lunchables remains #1 in the U.S. category with an 83.6% dollar share. We've extended Lunchables to more than 50 varieties, including Pizza, All Star Burgers and Hot Dogs and Mega Pack Lunchables, and we recently extended Lunchables from the U.S. to Europe. As a result, Lunchables revenue has increased from approximately $60 million in the U.S. in 1989 to over $600 million worldwide in 2000, a compound annual growth rate of nearly 25%."

XIII. Visual: Worldclass Marketing

Imagery: Border and Kraft logo. Three square bullet points on the left of the slide. To the right of the bullet points is an example of an advertisement for Cinnamon Altoids. The advertisement includes a picture of a woman dressed in a red devil's outfit resting on top of a package of Cinnamon Altoids mints. Above the picture in the advertisement is the caption: "I've Got the Hots For You." Below the picture in the advertisement is the caption: "The Curiously Strong Mints."

Visual Text: Heading: "Worldclass Marketing." The three bullet points are:

. Communicates benefits; builds brand equity

. 2000 pro forma advertising spending > $1.4 billion

. Award winning campaigns

Script: (Roger Deromedi): (see "Business--Our Competitive Strengths--Innovative Products Supported by Worldclass Marketing--Worldclass Marketing") "We use worldclass marketing and advertising to communicate the benefits of our products to consumers and to build brand equity, thus increasing demand for our products. Our 2000 pro forma advertising expenditures exceeded $1.4 billion. We invest more in advertising in the U.S. than any other food and beverage company and we are one of the largest food and beverage advertisers in the world." (see "Business--Consumer Marketing and Advertising") "During the past five years, the New York American Marketing Association has presented us with 21 Effie awards, which recognize advertising that is effective in growing brands. These include top-level Gold awards for our Altoids, Balance Bar, Gevalia Kaffe, Maxwell House, Miracle Whip and Wheat Thins campaigns."

XIV. Visual: Successful Portfolio Management

Imagery: Border and Kraft logo. Two rectangular boxes labeled with the headings "Acquisitions" and "Divestitures" appear side by side. One square bullet point appears on the left side in the first box, and two square bullet points appear on the left side in the second box. In the first box, four company logos appear: General Foods, Kraft, Jacobs Suchard and Nabisco.

Visual Text: Heading: "Successful Portfolio Management." Above the first rectangular box, the heading "Acquisitions" appears. The bullet points in the first box are:

. 4 major acquisitions

General Foods logo Kraft logo
Jacobs Suchard logo   Nabisco logo

Above the second rectangular box, the heading "Divestitures" appears.
The bullet points in the second box are:

. 50+ divestitures since 1990

. Businesses sold:

--$9.0 billion in revenue

--$0.5 billion in operating companies income

Script: (Betsy Holden): (see "Business--Our History") "We have a successful track record in managing our portfolio. Our company was created through a series of acquisitions, beginning with Philip Morris' acquisitions of General Foods in 1985 and Kraft in 1988, and our acquisition of Jacobs Suchard in 1990. In December 2000, we acquired Nabisco to expand our global presence and to strengthen our position in the growing snacks consumer sector."

(see "Business--Strategies--Optimize Our Portfolio") "Nabisco improved Kraft's product mix and will accelerate growth by increasing our share of the growing global snacks consumer sector. The combination of Nabisco and Kraft also offers numerous opportunities for new products, larger scale promotions and expanded distribution."

(see "Business--Our History") "Since 1990, we have also acquired more than 50 other U.S. and international food businesses, and we have successfully integrated these businesses."

(see "Business--Competitive Strengths--Our Successful Portfolio Management") "We also aggressively manage our portfolio by divesting underperforming businesses to concentrate on our core brands. Since 1990, we have divested businesses that had an aggregate of $9.0 billion of revenue, but only $0.5 billion of operating companies income, in the year before sale."

XV. Visual: Our Global Scale Supports: Customer Service

Imagery: Border and Kraft logo. One main square bullet point appears on the left of the slide with four square sub-bullet points.

Visual Text: Heading: "Our Global Scale Supports:." The bullet points are:

- Customer Service
  - 20,000 salespersons
  - Call on approximately 120,000 retail stores
  - 60 countries
  - Strengthen relationships with customers

Script: (Betsy Holden): (see "Business--Our Competitive Strengths--Our Global Scale Drives Customer Service, Productivity and Geographic Expansion") "Our global scale enables us to be more efficient and effective in serving our customers, while reducing costs, improving productivity and sustaining our high margins."

(see "Business--Our Competitive Strengths--Our Global Scale Drives Customer Service, Productivity and Geographic Expansion--Customer Service" and "Business--Sales, Retailer Relations and Food Service") "We provide customer service through our more than 20,000 salespersons, who call on approximately 120,000 retail stores in 60 countries. We also use our global scale to strengthen our relationships with our retail customers, which is essential in the face of ongoing global retailer consolidation. For example, we help to improve retailers' profitability by providing them with many leading brands, efficiently delivering products to their warehouses and stores, including direct-store-delivery systems, and helping them manage their inventory."

XVI. Visual: Our Global Scale Supports: Productivity

Imagery: Border and Kraft logo. Two main square bullet points appear on the left of the slide with three sub-bullet points.

Visual Text: Heading: "Our Global Scale Supports:." The bullet points are:

- Customer Service
- Productivity
  - Averaged more than $450 million annual savings since 1996
  - Target savings at 3.5% of cost of sales
  - Nabisco cost synergies

Script: (Betsy Holden): (see "Business--Our Competitive Strengths--Our Global Scale Drives Customer Service, Productivity and Geographic Expansion--Productivity") "Our scale also helps us to improve productivity, an area that has been a key contributor to our financial performance. Excluding Nabisco, we averaged more than $450 million per year in productivity savings over the last five years. Our target is to realize productivity savings of

3.5% of cost of sales each year." (see "Business--Strategies--Maximize Operating Efficiency"). "In addition, by combining Nabisco's operations with Kraft's, we currently expect to generate annual cost synergies in excess of $400 million in 2002, growing to more than $550 million in 2003. After associated charges to obtain these synergies, we expect to achieve net cost synergies of approximately $100 million in 2001, $300 million in 2002 and $475 million in 2003."

XVII. Visual: Our Global Scale Supports: Geographic Expansion

Imagery: Border and Kraft logo. Three main square bullet points appear on the left of the slide with two sub-bullet points.

Visual Text: Heading: "Our Global Scale Supports:." The bullet points are:

. Customer Service

. Productivity

. Geographic expansion

  . Fast adapt products to new markets

  . Strong growth in developing markets

Script: (Betsy Holden): (see "Business--Our Competitive Strengths--Our Global Scale Drives Customer Service, Productivity and Geographic Expansion--Geographic Expansion") "We also use our global scale and our local consumer insights to quickly adapt products popular in one market for introduction into other markets. This has contributed to our strong growth in developing markets, including Central and Eastern Europe, the Middle East and Africa, Latin America and Asia Pacific, where underlying volume was up 11.9% from 1999 to 2000."

XVIII. Visual: Experienced Management Team

Imagery: Border and Kraft logo. Two square bullet points on the left side of the slide.

Visual Text: Heading: "Experienced Management Team." The bullet points are:

. Top 25 Kraft executives

  --Average 20 years of industry experience

  --Multiple business, function and country experience

. Strong management development program

Centered at the bottom of the slide appears the italicized quote from The Wall Street Journal on May 18, 2000 "In the food world, Kraft is considered the Harvard of career management" and "The Wall Street Journal May 18, 2000."

Script: (Betsy Holden): (see "Business--Our Competitive Strengths--Our Management's Proven Ability to Execute") "Another key strength for Kraft is management's proven ability to execute. Our top 25 executives have an average of 20 years industry experience. More than one-half have worked outside their home country to gain global experience. Kraft is renowned not only for the quality of its senior management team, but also for its promotion of excellence at all levels of the organization. According to The Wall Street Journal, 'In the food world, Kraft is considered the Harvard of career management.' "

XIX. Visual: 2000 Cannondale U.S. Retailer Survey

Imagery: Border and Kraft logo. Three square bullet points on the left of the slide.

Visual Text: Heading: "2000 Cannondale U.S. Retailer Survey." The three bullet points are:

. "Best Combination of Growth and Profitability"

. "Best Sales Force/Customer Teams"

. "Best of the Best" among food and beverage companies

Script: (Betsy Holden): (see "Business--Competitive Strengths--Our Management's Proven Ability to Execute") "Our retail customers have recognized our execution abilities in the 2000 annual PoweRanking(TM) survey of retailers conducted by Cannondale Associates, a sales and marketing consulting firm that surveys the U.S.'s leading retailers to produce a benchmark rating of the performance of food, beverage, household and personal care products manufacturers. Among all consumer packaged goods companies, we were ranked #1 in the category of 'Best combination of growth and profitability' to retailers, and tied for #1 in the 'Best sales force/customer teams' category. We also ranked #1 among all food and beverage companies in the 'Best of the Best' composite ranking and in every surveyed category."

XX. Visual: Our Strategies: Accelerate Growth of Our Core Brands

Imagery: Border and Kraft logo. Main square bullet point on the left of the slide with four sub-bullet points.

Visual Text: Heading: "Our Strategies." The bullet points are:

. Accelerate growth of our core brands

    . Growing consumer sectors

        --Snacks, beverages, convenient meals

    . Health and wellness needs

    . Growing distribution channels

    . Attractive demographic and economic segments

Script: (Roger Deromedi): (see "Business--Strategies--Accelerate Growth of Core Brands") "Turning now to our strategies, our first strategy is to accelerate the growth of our core brands. We strive to grow these brands by focusing on the growing consumer sectors of snacks, beverages and convenient meals; addressing consumer health and wellness needs; expanding our presence in faster growing distribution channels; and targeting attractive demographic and economic segments in each market."

XXI. Visual: Our Strategies: Drive Global Category Leadership

Imagery: Border and Kraft logo. Two main square bullet points on the left of the slide with three sub-bullet points.

Visual Text: Heading: "Our Strategies." The bullet points are:

. Accelerate growth of our core brands

. Drive global category leadership

- Attain/expand leading position in core categories across key markets

- Capture category leadership benefits and greater share of growth and profit

- Expand in developing markets

Script: (Roger Deromedi): (see "Business--Strategies--Drive Global Category Leadership") "Our second strategy is to drive global category leadership. Our strategy is to attain and expand the leading position in core categories across our key markets. As a category leader, with the benefits of scale, consumer loyalty and retail customer emphasis, we are positioned to capture a significant share of a category's growth and profit. A key element of this strategy is to expand our sales in developing markets, which contain 86% of the world's population with 18% of its disposable income, but which accounted for only 9% of our 2000 underlying revenue, presenting a significant growth opportunity."

XXII. Visual: Our Strategies: Optimize Our Portfolio

Imagery: Border and Kraft logo. Three main square bullet points on the left of the slide with three sub-bullet points.

Visual Text: Heading: "Our Strategies." The bullet points are:

- Accelerate growth of our core brands

- Drive global category leadership

- Optimize our portfolio

  - Acquisitions

  - Licensing agreements

  - Divestitures

Script: (Roger Deromedi): (see "Business--Strategies--Optimize our Portfolio") "Our third strategy is to continue to optimize our portfolio. We will actively manage our business and brand portfolio through acquisitions, licensing arrangements, and divestitures to improve our mix of growing, profitable, and high-return businesses."

XXIII. Visual: Our Strategies: Maximize Operating Efficiency

Imagery: Border and Kraft logo. Four square bullet points on the left of the slide with three sub-bullet points.

Visual Text: Heading: "Our Strategies." The bullet points are:

- Accelerate growth of our core brands

- Drive global category leadership

- Optimize our portfolio

- Maximize operating efficiency

  - Drive excess costs and unproductive assets out of system

  - Reduce cost of sales and overhead

  - Enhance earnings and cash flow

Script: (Roger Deromedi): (see "Business--Strategy--Maximize Operating Efficiency") "Our fourth strategy is to maximize our operating efficiency. We do this by driving excess costs and unproductive assets out of our system, thus reducing our cost of sales and overhead expenditures, while enhancing our earnings and cash flow."

XXIV. Visual: Our Strategies: Build Employee and Organizational Excellence

Imagery: Border and Kraft logo. Five square bullet points on the left of the slide with two sub-bullet points.

Visual Text: Heading: "Our Strategies." The bullet points are:

- Accelerate growth of our core brands
- Drive global category leadership
- Optimize our portfolio
- Maximize operating efficiency
- Build employee and organizational excellence
  - Training and development
  - Measurement and reward systems

Script: (Roger Deromedi): (see "Business--Strategy--Build Employee and Organizational Excellence") "Our final strategy is to build employee and organizational excellence. We will continue to invest in training, development and career management. We will also align our measurement and reward systems with actions that drive our success in the marketplace and create superior value for our investors."

XXV. Visual: Our Operating Results

Imagery: Border and Kraft logo. Table showing selected pro forma 2000 financial and other data for Kraft.

Visual Text: Heading: "Our Operating Results." Table showing the following pro forma 2000 operating results in dollars and pounds in billions: Volume--17.6 lb; Operating Revenue--$34.7; EBITDA--$6.3; and Net Earnings--$1.4.

Script: (Betsy Holden): (see "Prospectus Summary--Summary Historical and Pro Forma Combined Financial and Other Data") "Turning now to our financials, our overall 2000 pro forma results are shown here.

- We generated total volume of 17.6 billion pounds; and
- Operating revenue of $34.7 billion.
- Our earnings before interest, taxes, depreciation and amortization were $6.3 billion; and
- Net earnings were $1.4 billion."

XXVI. Visual: Our Reported Segments

Imagery: Border and Kraft logo. Pie chart showing the 2000 pro forma revenue contribution for each of Kraft's reported segments. Summary box showing 2000 pro forma revenue for Kraft Foods North America to the upper left of the pie chart and summary box showing 2000 pro forma revenue for Kraft Foods International to the lower right of the pie chart.

Visual Text: Heading: "Our Reported Segments." Text above the pie chart: "Total 2000 Pro Forma Revenue $34.7 Billion." Pie chart: Cheese Meals & Enhancers--$10.3 billion; Europe, Middle East & Africa--$7.0 billion, Latin America & Asia Pacific--$2.4 billion; Oscar Mayer & Pizza--$3.5 billion; Beverages, Desserts & Cereals--$5.5 billion; and Biscuits, Snacks & Confectionery--$6.0 billion. First summary box: KFNA--$25.3 billion. Second summary box: KFI--$9.4 billion.

Script: (Betsy Holden): (see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview of Our Business--General" and "--Combined Operating Results by Segment" and "Business--Overview") "We conduct our global food business through two units: Kraft Foods North America, or KFNA, and Kraft Foods International, or KFI. KFNA had 2000 pro forma revenue of $25.3 billion. KFNA's reported segments are Cheese, Meals & Enhancers with $10.3 billion in revenue, Biscuits, Snacks & Confectionery with $6.0 billion in revenue, Beverages, Desserts & Cereals with $5.5 billion in revenue and Oscar Mayer & Pizza with $3.5 billion in revenue.

KFI had 2000 pro forma revenue of $9.4 billion. Its reported segments are Europe, Middle East & Africa with $7.0 billion in revenue and Latin America & Asia Pacific with $2.4 billion in revenue."

XXVII. Visual: Summary

Imagery: Border and Kraft logo. Three square bullet points on the left of the slide.

Visual Text: Heading: "Summary." The three bullet points are:

- Mission: Undisputed Global Food and Beverage Leadership

- Significant strengths and strategies to get there

- Strong track record of performance

Script: (Betsy Holden): "Now, let me summarize what we've said here today. First, Kraft has a clear mission to become the undisputed global food and beverage leader, and we are well on our way to achieving this mission. Second, as you've heard today, we have significant strengths and the right strategies to help us get there. Finally, we have a strong track record of performance, both financially and operationally."

XXVIII. Visual: Conclusion

Imagery: Large Kraft logo.

Script: (Roger Deromedi): "This concludes our presentation. Thank you for your interest in Kraft. We strongly encourage you to refer back to the prospectus, and in particular, the Risk Factors before making any investment decisions. We hope that our presentation has added to your understanding of our company."

[Inside Back Cover Artwork and Graphics:

The first 1 3/4 inches across the page from top to bottom have a blue background with the Kraft logo appearing 2 1/4 inches down from the top, followed by the text: "Delighting consumers with leading brands in five global sectors." The balance of the page is a photograph of two children seated at a table in the kitchen of a home, enjoying Kraft Macaroni & Cheese and Country Time lemonade. Also shown is the father playfully interacting with the children, while the mother prepares the meal. The mother is shown looking on with a smile while reaching into a cupboard which is filled with Kraft products, including Kraft Velveeta prepared cheese product, Premium crackers, Cream of Wheat cereal, Ritz crackers, Wheat Thins crackers, Oreo cookies, Kraft Macaroni & Cheese Dinners, Jell-O desserts, Maxwell House coffee, Triscuit crackers, A.1. steak sauce and Grey Poupon mustard.]

[Back Gatefold Artwork and Graphics:

Across the page are six columns. The first column is approximately 1 1/2 inches wide and the Kraft logo appears approximately 1 3/4 inches from the top, followed by the text "Delighting consumers with leading brands in five global sectors." The second column is approximately 1 3/4 inches wide with a photograph at the top of a girl dunking an Oreo cookie in a glass of milk, followed by the heading "Snacks" centered in the column with a purple background. The remainder of the column shows the logos of six of our brands in our snacks consumer sector: Milka, Planters, Oreo, Ritz, Life Savers and Toblerone. The third column is approximately 1 3/4 inches wide with a photograph at the top of a husband and wife enjoying Jacobs Kronung coffee in the dining area of their home while the husband reads the package and the wife reads the newspaper, followed by the heading "Beverages" centered in the column with an orange background. The remainder of the column shows the logos of six of our brands in our beverages consumer sector: Maxwell House, Carte Noire, Jacobs, Capri Sun, Tang and Kool-Aid. The fourth column is approximately 1 3/4 inches wide with a photograph at the top of a smiling woman preparing to pour Kraft Ranch dressing over her salad while sitting at a table talking with a man, followed by the heading "Grocery" centered in the column with a light blue background. The remainder of the column shows the logos of six of our brands in our grocery consumer sector: Post, Miracle Whip, Jell-O, A.1., Cool Whip and Royal. The fifth column is approximately 1 3/4 inches wide with a photograph at the top of a woman enjoying a piece of bread with Philadelphia cream cheese spread across it, followed by the heading "Cheese" centered in the column with a yellow background. The remainder of the column shows the logos of six of our brands in our cheese consumer sector: Philadelphia, Cracker Barrel, Kraft Velveeta, Kraft Dairylea, Kraft Singles and Kraft Cheez Whiz Cheese Dip. The sixth column is approximately 1 3/4 inches wide with a photograph at the top of a person's hand taking a slice of Tombstone Stuffed Crust Supreme flavored pizza, followed by the heading "Convenient Meals" centered in the column with a red background. The remainder of the column shows the logos of six of our brands in our convenient meals consumer sector: Oscar Mayer, Kraft Macaroni & Cheese Dinner, Oscar Mayer Lunchables Lunch Combinations, Tombstone, Boca and DiGiorno Rising Crust Pizza.]

[Kraft Logo]