UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 31, 2001

COMMISSION FILE NUMBER 1-16483

KRAFT FOODS INC.
(Exact name of registrant as specified in its charter)

Virginia	52-2284372
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Three Lakes Drive, Northfield, Illinois	60093
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 847-646-2000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, no par value	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the shares of Class A Common Stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on February 28, 2002, was approximately $11 billion. At such date, there were 555,000,000 shares of the registrant's Class A Common Stock outstanding, and 1,180,000,000 shares of the registrant's Class B Common Stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's annual report to shareholders for the year ended December 31, 2001 (the "2001 Annual Report") are incorporated in Part I, Part II and Part IV hereof and made a part hereof. The registrant's definitive proxy statement for use in connection with its annual meeting of shareholders to be held on April 22, 2002, filed with the Securities and Exchange Commission on March 8, 2002, is incorporated in Part III hereof and made a part hereof.

PART I

Item 1. Business.

(a) General Development of Business

General

Kraft Foods Inc. ("Kraft") was incorporated in 2000 in the Commonwealth of Virginia. Following Kraft's formation, Philip Morris Companies Inc. ("Philip Morris") transferred to Kraft its ownership interest in Kraft Foods North America, Inc., a Delaware corporation, through a capital contribution. 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. In addition, on December 11, 2000, Kraft acquired all of the outstanding shares of Nabisco Holdings Corp. ("Nabisco"). Kraft, together with its subsidiaries (collectively referred to as the "Company"), is engaged in the manufacture and sale of branded foods and beverages in the United States, Canada, Europe, Latin America and Asia Pacific.

Prior to June 13, 2001, the Company was a wholly-owned subsidiary of Philip Morris. On June 13, 2001, the Company completed an initial public offering ("IPO") of 280,000,000 shares of its Class A common stock at a price of $31.00 per share. The IPO proceeds, net of the underwriting discount and expenses, of $8.4 billion were used to retire a portion of an $11.0 billion long-term note payable to Philip Morris incurred in connection with the acquisition of Nabisco. After the IPO, Philip Morris owns approximately 83.9% of the outstanding shares of the Company's capital stock through its ownership of 49.5% of the Company's Class A common stock and 100% of the Company's Class B common stock. The Company's Class A common stock has one vote per share while the Company's Class B common stock has ten votes per share. Therefore, Philip Morris holds 97.7% of the combined voting power of the Company's outstanding common stock.

Source of Funds--Dividends

Because the Company is a holding company, its principal source of funds is dividends from its subsidiaries. The Company's principal wholly-owned subsidiaries currently are not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their common stock.

(b) Financial Information About Industry Segments

The Company conducts its global business through its subsidiaries: Kraft Foods North America, Inc. ("Kraft Foods North America") and Kraft Foods International, Inc. ("Kraft Foods International"). The Company has operations in 68 countries and sells its products in more than 145 countries. Kraft Foods North America operates in the United States, Canada and Mexico, and manages its operations by product category, while Kraft Foods International manages its operations by geographic region. Kraft Foods North America's reportable 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 reported through the Cheese, Meals and Enhancers segment. Kraft Foods International's reportable segments are Europe, Middle East and Africa; and Latin America and Asia Pacific.

Operating revenues and operating companies income (together with a reconciliation to operating income) attributable to each such segment for each of the last three years are set forth in Note 13 to the Company's consolidated financial statements and are incorporated herein by reference to the 2001 Annual Report.

The relative percentages of operating companies income attributable to each reportable segment were as follows:

	For the Years Ended December 31,		
	2001	2000	1999
Kraft Foods North America:			
Cheese, Meals and Enhancers	34.8%	38.8%	39.0%
Biscuits, Snacks and Confectionery	16.0	2.1	1.7
Beverages, Desserts and Cereals	19.8	22.9	23.7
Oscar Mayer and Pizza	8.9	10.8	10.6
Total Kraft Foods North America	79.5	74.6	75.0
Kraft Foods International:			
Europe, Middle East and Africa	14.3	21.4	21.0
Latin America and Asia Pacific	6.2	4.0	4.0
Total Kraft Foods International	20.5	25.4	25.0
Total Kraft Foods Inc.	100.0%	100.0%	100.0%

The inclusion of Nabisco's operating results in 2001 contributed to the shift in relative percentages toward the Biscuits, Snacks and Confectionery and Latin America and Asia Pacific segments.

(c) Narrative Description of Business

Acquisitions and Divestitures

Nabisco Acquisition

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 was consolidated with the Company as of December 31, 2000, and beginning January 1, 2001, Nabisco's earnings have been included in the consolidated operating results of the Company; however, Nabisco's earnings from December 11, 2000 to December 31, 2000 were not included in the consolidated operating results of the Company since such amounts were insignificant. The Company's interest cost associated with acquiring Nabisco has been included in interest and other debt expense, net, on the Company's consolidated statements of earnings for the years ended December 31, 2001 and 2000.

The integration of Nabisco into the Company has continued throughout 2001. The closure of a number of Nabisco domestic and international facilities resulted in severance and other exit costs of $379 million, which are included in the adjustments for the allocation of purchase price. The closures will result in the termination of approximately 7,500 employees and will require total cash payments of $373 million, of which approximately $74 million has been spent through December 31, 2001. Substantially all of the closures will be completed by the end of 2002.

The integration of Nabisco into the operations of the Company will also result in the closure or reconfiguration of several of the Company's existing facilities. The aggregate charges to the Company's consolidated statement of earnings to close or reconfigure its facilities and integrate Nabisco are estimated to be in the range of $200 million to $300 million. During 2001, the Company incurred pre-tax integration costs of $53 million for site reconfigurations and other consolidation programs in the United

States. In October 2001, the Company announced that it was offering a voluntary retirement program to certain salaried employees in the United States. The program is expected to terminate approximately 750 employees and will result in an estimated pre-tax charge of approximately $140 million upon final employee acceptance in the first quarter of 2002. This pre-tax charge is part of the previously discussed $200 million to $300 million in pre-tax charges related to the integration of Nabisco. For a detailed discussion of the Nabisco acquisition, see Note 5 to the Company's consolidated financial statements, incorporated herein by reference to the 2001 Annual Report.

By combining Nabisco's operations with the operations of Kraft Foods North America and Kraft Foods International, the Company achieved net cost synergies of over $100 million in 2001 and expects to generate net cost synergies of $300 million in 2002, $475 million in 2003 and ongoing annual cost savings of $600 million thereafter.

Other Acquisitions and Divestitures

During 2001, the Company purchased coffee businesses in Romania, Morocco and Bulgaria and also acquired confectionery businesses in Russia and Poland. The total cost of these and other smaller acquisitions was $194 million. 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 privately held manufacturer and marketer of soy-based meat alternatives. The total cost of these and other smaller acquisitions was $365 million. During 1999, the Company purchased several small North American and international food businesses for $14 million.

During 2001, the Company sold several small food businesses. The aggregate proceeds received in these transactions were $21 million, on which the Company recorded a pre-tax gain of $8 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. 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. Pre-tax gains on these divestitures were included in marketing, administration and research costs on the Company's consolidated statements of earnings.

The impact of these acquisitions and divestitures, excluding Nabisco, has not had a material effect on the Company's results of operations.

Markets and Products

The Company's portfolio of brands includes 61 brands with 2001 revenues over $100 million, accounting for 78% of the Company's 2001 revenues. Six of these brands--Kraft, Nabisco, Oscar Mayer, Post, Maxwell House, and Philadelphia--had 2001 revenues over $1 billion, accounting for 39% of the Company's 2001 revenues.

The Company's brands span five consumer sectors, as follows:

- 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 each reportable segment's participation in these five core consumer sectors.

Percentage of 2001 Operating Revenues by Consumer Sector(3)

Segment(1)	Snacks	Beverages	Cheese	Grocery	Convenient Meals	Total
Kraft Foods North America:						
Cheese, Meals and Enhancers(2)....	4.9%	9.6%	79.7%	45.5%	30.5%	30.3%
Biscuits, Snacks and Confectionery..................	56.6			3.4		17.5
Beverages, Desserts and Cereals...	6.3	43.2		35.1		15.8
Oscar Mayer and Pizza.............					64.5	10.5
Total Kraft Foods North America......................	67.8	52.8	79.7	84.0	95.0	74.1
Kraft Foods International:						
Europe, Middle East and Africa....	21.9	40.1	15.3	6.1	3.7	18.7
Latin America and Asia Pacific....	10.3	7.1	5.0	9.9	1.3	7.2
Total Kraft Foods International................	32.2	47.2	20.3	16.0	5.0	25.9
Total Kraft Foods Inc.	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Consumer Sector Percentage of Total Kraft Foods Inc.	29.9%	19.4%	18.4%	16.0%	16.3%	100.0%

- ------------

(1) The amounts of operating revenues, total assets and long-lived assets attributable to each of the Company's geographic regions and the amounts of operating revenues and operating companies income of each of the Company's reportable segments for each of the last three fiscal years are set forth in Note 13 to the Company's consolidated financial statements, incorporated herein by reference to the 2001 Annual Report.

(2) The Cheese, Meals and Enhancers segment includes the Company's United States food service business and its businesses in Canada and Mexico which sell products across all consumer sectors.

(3) Percentages are calculated based upon dollars rounded to millions.

Additional Product Disclosure

Products or similar products contributing 10% or more of the Company's consolidated operating revenues for each of the three years in the period ended December 31, 2001, were as follows:

	2001	2000	1999
Cheese..........	18%	23%	23%
Biscuits..........	15		
Coffee..........	12	17	18
Confectionery..........	10	10	11

The inclusion of Nabisco's operating results in 2001 contributed to the shift in relative percentages toward biscuits.

The Company's major brands within each reportable segment are as follows:

Kraft Foods North America:

Cheese, Meals and Enhancers (includes U.S. food service, Canada and Mexico sales within each consumer sector)

Snacks:	Oreo and Chips Ahoy! cookies in Mexico; Ritz crackers in Mexico; and Life Savers sugar confectionery products in Mexico.
Beverages:	Maxwell House, Sanka and Nabob coffees in Canada; Kool-Aid and Tang powdered soft drinks in Canada and Mexico; and Capri Sun aseptic juice drinks in Canada and Mexico.
Cheese:	Kraft and Cracker Barrel natural cheeses; Philadelphia cream cheese; Kraft and Velveeta process cheeses; Kraft grated cheeses; Cheez Whiz process cheese sauce; Easy Cheese aerosol cheese spread; and Knudsen and Breakstone's cottage cheese and sour cream.
Grocery:	Kraft and Miracle Whip spoonable dressings; Kraft salad dressings; A.1. steak sauce; Kraft and Bull's-Eye barbecue sauces; Grey Poupon premium mustards; and Shake 'N Bake coatings.
Convenient Meals:	Kraft macaroni & cheese dinners; Taco Bell, It's Pasta Anytime and Stove Top Oven Classics meal kits; Stove Top stuffing mix; Minute rice; and Delissio frozen pizzas in Canada.

Biscuits, Snacks and Confectionery

Snacks:	Oreo, Chips Ahoy!, Newtons, Nilla, Nutter Butter, Stella D'Oro and SnackWell's cookies; Ritz, Premium, Triscuit, Wheat Thins, Cheese Nips, Better Cheddars, Honey Maid Grahams and Teddy Grahams crackers; Planters nuts and salty snacks; Handi-Snacks two compartment snacks; Life Savers, Creme Savers, Altoids, Gummi Savers and Fruit Snacks sugar confectionery products; and Terry's and Toblerone chocolate confectionery products.
Grocery:	Milk-Bone pet snacks.

Beverages, Desserts and Cereals

Snacks:	Balance Bar nutrition and energy snacks; Jell-O refrigerated gelatin and pudding snacks; and Handi-Snacks shelf-stable pudding snacks.
Beverages:	Maxwell House, General Foods International Coffees, Starbucks, Yuban, Sanka and Gevalia coffees; Capri Sun, Kool-Aid, Tang and Crystal Light aseptic juice drinks; and Kool-Aid, Tang, Capri Sun, Crystal Light and Country Time powdered soft drinks.
Grocery:	Jell-O dry packaged desserts; Cool Whip frozen whipped topping; Post ready-to-eat cereals; and Cream of Wheat and Cream of Rice hot cereals.

Oscar Mayer and Pizza

Convenient Meals:	DiGiorno, Tombstone, Jack's and California Pizza Kitchen frozen pizzas; Lunchables lunch combinations; Oscar Mayer and Louis Rich cold cuts, hot dogs and bacon; and Boca soy-based meat alternatives.

Kraft Foods International:

Europe, Middle East and Africa

Snacks:	Milka, Suchard, Cote d'Or, Marabou, Toblerone, Freia, Terry's, Daim, Figaro, Korona, Poiana, Prince Polo and Siesta chocolate confectionery products; and Estrella, Maarud and Lux salty snacks.
Beverages:	Jacobs, Gevalia, Carte Noire, Jacques Vabre, Kaffee HAG, Grand' Mere, Kenco, Saimaza, Maxwell House, Dadak, Onko and Nova Brasilia coffees; Tang powdered soft drinks; and Suchard Express, O'Boy and Kaba chocolate drinks.
Cheese:	Kraft, Dairylea, Sottilette, El Caserio and Invernizzi cheeses; and Philadelphia cream cheese.
Grocery:	Kraft pourable and spoonable salad dressings; and Miracel Whip spoonable dressing.
Convenient Meals:	Lunchables lunch combinations; Kraft and Miracoli pasta dinners and sauces; and Simmenthal canned meats.

Latin America and Asia Pacific

Snacks:	Oreo, Chips Ahoy!, Ritz, Terrabusi, Canale, Club Social, Cerealitas, Trakinas and Lucky biscuits; Milka, Lacta and Gallito chocolate confectionery products; and Sugus and Artic sugar confectionery products.
Beverages:	Maxwell House and Maxim coffee; Tang, Clight, Kool-Aid, Royal, Verao, Fresh, Frisco, Q-Refres-Ko and Ki-Suco powdered soft drinks; and Maguary juice concentrate.
Cheese:	Kraft and Eden process cheeses; Philadelphia cream cheese; and Cheez Whiz process cheese spread.
Grocery:	Royal dry packaged desserts; Kraft spoonable and pourable salad dressings; Kraft and ETA peanut butters; and Vegemite yeast spread.
Convenient Meals:	Kraft macaroni & cheese dinners.

Distribution, Competition and Raw Materials

Kraft Foods North America's products are generally sold to supermarket chains, wholesalers, supercenters, club stores, mass merchandisers, distributors, convenience stores, gasoline stations and other retail food outlets. In general, the retail trade for food products is consolidating. Food products are distributed through distribution centers, satellite warehouses, company-operated and public cold-storage facilities, depots and other facilities. Most distribution in North America is in the form of warehouse delivery, but snacks and frozen pizza are distributed through two direct-store-delivery systems. Selling

efforts are supported by national and regional advertising on television and radio as well as outdoor media such as billboards and in magazines and newspapers, as well as by sales promotions, product displays, trade incentives, informative material offered to customers and other promotional activities. Subsidiaries and affiliates of Kraft Foods International sell their food products primarily in the same manner and also engage the services of independent sales offices and agents.

Kraft Foods North America, Kraft Foods International and their subsidiaries are subject to competitive conditions in all aspects of their business. Competitors include large national and international companies and numerous local and regional companies. Some competitors may have different profit objectives and some international competitors may be less susceptible to currency exchange rates. In addition, certain international competitors benefit from government subsidies. Products of Kraft Foods North America and Kraft Foods International also compete with generic products and private-label products of food retailers, wholesalers and cooperatives. Kraft Foods North America, Kraft Foods International and their subsidiaries 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.

Kraft Foods North America, Kraft Foods International and their subsidiaries are major purchasers of milk, cheese, nuts, green coffee beans, cocoa, corn products, wheat, rice, pork, poultry, beef, vegetable oil, and sugar and other sweeteners. They also use significant quantities of glass, plastic and cardboard to package their products. They continuously monitor worldwide supply and cost trends of these commodities to enable them to take appropriate action to obtain ingredients and packaging needed for production.

Kraft Foods North America, Kraft Foods International and their subsidiaries purchase a substantial portion of their milk requirements from independent agricultural cooperatives and individual producers, and a substantial portion of their cheese requirements from independent sources. The prices for milk and other dairy product purchases are substantially influenced by government programs, as well as by market supply and demand. Dairy commodity costs on average have been higher in 2001 than those seen in 2000.

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. In 2001, coffee bean prices have been lower than in 2000. A significant cost item in chocolate confectionery products is cocoa, which is purchased on world markets, and the price of which is affected by the quality and availability of supply and changes in the value of the British pound sterling and the United States dollar relative to certain other currencies. In 2001, cocoa bean prices have been higher than in 2000.

The prices paid for raw materials and agricultural materials used in the products of Kraft Foods North America and Kraft Foods International 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, the Company believes such raw materials to be in adequate supply and generally available from numerous sources. However, the Company and its subsidiaries use hedging techniques to minimize the impact of price fluctuations in their principal raw materials. They do not fully hedge against changes in commodity prices and these strategies may not protect the Company or its subsidiaries from increases in specific raw material costs.

Regulation

All of Kraft Foods North America's United States food products and packaging materials are subject to regulations administered by the Food and Drug Administration ("FDA") or, with respect to products containing meat and poultry, the United States Department of Agriculture ("USDA"). 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 Kraft Foods North America's 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 imposing their own labeling requirements on food products.

Many of the food commodities on which Kraft Foods North America's 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 the Company's food operations outside of the United States are subject to local and national regulations similar to those applicable to Kraft Foods North America's 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 classes of 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.

Other Matters

Customers

For the year ended December 31, 2001, the Company's five largest customers accounted for approximately 26% of its operating revenues while the Company's ten largest customers accounted for approximately 36% of its operating revenues. One of the Company's customers, Wal-Mart Stores Inc., accounted for approximately 10.1% of operating revenues for 2001.

Employees

At December 31, 2001, the Company employed approximately 114,000 people worldwide. Approximately one-half of the Company's 30,000 hourly employees in the United States are represented by labor unions. Most of the unionized workers at the Company's 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. Outside the United States, approximately 70% of the Company's 40,000 hourly employees are represented by labor unions or workers' councils. The Company's business units are subject to a number of laws and regulations relating to their relationships with their employees. These laws and regulations are specific to the location of each enterprise. In addition, in accordance with European Union requirements, Kraft Foods International has established European Works Councils composed of management and elected members of its workforce. The Company and its subsidiaries believe that their relations with employees and their representative organizations are good.

Research and Development

The Company pursues four objectives in research and development: uncompromising product safety and quality; growth through new products; superior consumer satisfaction; and reduced costs.

The Company's 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. Research and development expense was $358 million in 2001, $270 million in 2000 and $262 million in 1999.

Trademarks and Intellectual Property

Trademarks are of material importance to the Company's businesses and are protected by registration or otherwise in the United States and most other markets where the related products are sold. The Company has from time to time granted various parties exclusive or non-exclusive licenses to use one or more of its trademarks in particular locations. The Company does not believe that these licensing arrangements have had a material effect on the conduct of its business or operating results.

Some of the Company's products are sold under brands that have been licensed from others on terms that are generally renewable at the Company's discretion. These licensed brands include 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, the Company and its subsidiaries own thousands of patents worldwide, and the patent portfolio as a whole is material to the Company's business; however, no one patent or group of related patents is material to the Company. In addition, the Company has proprietary trade secrets, technology, know-how processes and other intellectual property rights that are not registered.

Environmental Regulation

The Company and its subsidiaries 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 (commonly known as "Superfund"), which imposes joint and several liability on each responsible party. In 2001, subsidiaries of the Company were involved in 91 active Superfund and other actions in the United States related to current operations and certain former or divested operations for which the Company retains liability.

Outside the United States, the Company and its subsidiaries are subject to applicable multi-national, national and local environmental laws and regulations in the host countries in which the Company does business. The Company has specific programs across its 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 such laws and regulations, including the payment of any remediation costs and the making of such expenditures, has not had, and is not expected to have, a material adverse effect on the Company's results of operations, capital expenditures, financial position, earnings or competitive position.

Forward-Looking and Cautionary Statements

The Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to shareholders. One can identify these forward-looking statements by use of words such as "strategy," "expects," "plans," "anticipates," "believes," "will," "estimates," "intends," "projects," "goals," "targets" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying important factors that could cause actual results and outcomes to differ materially from those contained in any forward-looking statement made by or on behalf of the Company; any such statement is qualified by reference to the following cautionary statements.

Each of the Company's segments is subject to intense competition, changes in consumer preferences, the effects of changing prices for its raw materials and local economic conditions. Their results are dependent upon their continued ability to promote brand equity successfully, to anticipate and respond to new consumer trends, to develop new products and markets and to broaden brand portfolios in order to compete effectively with lower priced products in a consolidating environment at the retail and manufacturing levels, to improve productivity, and to respond to changing prices for raw materials. The Company's results are also dependent on its ability to successfully integrate and derive cost savings from the integration of Nabisco's operations with the Company. In addition, the Company is subject to the effects of foreign economies, currency movements and fluctuations in levels of customer inventories. The food industry continues to be subject to the possibility that consumers could lose confidence in the safety and quality of certain food products. Developments in any of these areas could cause the Company's results to differ materially from results that have been or may be projected by or on behalf of the Company. The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

(d) Financial Information About Foreign and Domestic Operations and Export Sales

The amounts of operating revenues and long-lived assets attributable to each of the Company's geographic segments for each of the last three fiscal years are set forth in Note 13 to the Company's consolidated financial statements, incorporated herein by reference to the 2001 Annual Report.

Subsidiaries of the Company export coffee products, grocery products, cheese and processed meats. In 2001, the value of all exports from the United States by these subsidiaries amounted to approximately $232 million.

Item 2. Properties.

The Company has 218 manufacturing and processing facilities worldwide. In North America, the Company has 100 facilities, and outside of North America there are 118 facilities located in 45 countries. These manufacturing and processing facilities are located throughout the following territories:

Territory	Number of Facilities
United States	74
Canada	22
Mexico	4
Western Europe	39
Central and Eastern Europe, Middle East and Africa	18
Latin America	45
Asia Pacific	16
Total	218

The Company owns 205 and leases 13 of these manufacturing and processing facilities. All of the Company's plants and properties are maintained in good condition, and the Company believes that they are suitable and adequate for its present needs.

The integration of Nabisco into the operations of the Company has resulted in the closure of seven Nabisco facilities during 2001. During 2002, the Company anticipates closing seven additional Nabisco facilities.

As of December 31, 2001, the Company's distribution facilities consisted of 459 distribution centers and depots worldwide. In North America, the Company had 397 distribution centers and depots, more than 75% of which support the Company's direct-store-delivery systems. Outside North America, the Company had 62 distribution centers and depots in 27 countries. The Company owns 89 of these distribution centers and two of these depots and leases 173 of these distribution centers and 195 of these depots. The Company believes that all of these facilities are in good condition and have sufficient capacity to meet the Company's distribution needs for the foreseeable future.

Item 3. Legal Proceedings.

The Company's subsidiaries are parties to a variety of legal proceedings arising out of the normal course of business, including the matters discussed below. 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 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 the Company and others engaged in a conspiracy to fix and depress the prices of bulk cheese and milk through their 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 Wisconsin, and in November 1999, the court granted the Company's motion for summary judgment. In June 2001, the Wisconsin Court of Appeals affirmed the trial court's ruling, but on October 23, 2001, the Wisconsin Supreme Court granted plaintiffs' petition for further review. The Company's motion to dismiss was granted in a case pending in the United States District Court for the Central District of California. The Court of Appeals for the Ninth Circuit reversed and remanded for further proceedings. A case in Illinois state court has been settled and dismissed. No classes have been certified in any of the cases.

Environmental Matters: In May 2001, the State of Ohio notified the Company that it may be subject to an enforcement action for alleged past violations of the Company's wastewater discharge permit at its production facility in Farmdale, Ohio. The State has offered to attempt to negotiate a settlement of this matter, and the Company has accepted the offer to do so. The State has not yet identified the relief it may seek in this matter.

In December 2001, the Company settled a civil enforcement action in which the State of Missouri alleged that the Company had violated state solid waste and clean water laws in its handling of spent wiener casings. The Company paid a civil penalty of $300,000 and completed remediation of the site where the spent casings had been sent.

The Company is 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 was filed on March 6, 1996, in the Supreme Court of the State of New York and was subsequently dismissed by the trial court. That decision was affirmed on appeal. The other two cases both were filed on January 3, 2000, also in the Supreme Court of the State of New York. That court granted defendant's summary judgment motion as to all but one of the plaintiffs in each of the remaining cases, and the plaintiffs have now withdrawn their appeal of this ruling. Discovery is proceeding as to the two remaining plaintiffs, who are seeking unspecified damages for alleged personal injury and fear or risk of cancer.

The Company is 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 ("EPA"), of soil and groundwater contamination associated with the site. Upon completion of this investigation, the EPA will select 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. This case was settled and dismissed by the court in January 2002. The second lawsuit, which was filed on October 7, 1999 in the same court, was brought by numerous area residents alleging bodily injury, emotional distress and wrongful death. This case remains pending. In June 2001, the Company entered into an agreement with a third party, under which the third party will fully indemnify the Company for the Hawaii matters described above.

Twelve lawsuits recently were filed against Del Monte Corporation (which previously was affiliated with Nabisco or a former affiliate) and 6 other pesticide users and manufacturers for alleged injuries to workers caused by exposure to dibromochloropropane ("DBCP"). The complaints were served on Del Monte Corporation on approximately February 21, 2002. The complaints allege that Del Monte Corporation purchased DBCP in mid-1979 with the objective of using it in Nicaragua. The lawsuits, which were instituted between September 17, 2001 and October 1, 2001 with the Third Civil District Judge for Managua (Nicaragua), collectively seek unspecified costs and expenses and compensatory and punitive damages of approximately $720 million. The Company has sought full defense and indemnity from a third party for each of these claims.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Executive Officers of the Company

The following are the executive officers of the Company as of February 28, 2002:

Name	Age	Title
Roger K. Deromedi	48	Co-Chief Executive Officer; and President and Chief Executive Officer, Kraft Foods International
Betsy D. Holden	46	Co-Chief Executive Officer; and President and Chief Executive Officer, Kraft Foods North America
Calvin J. Collier	60	Senior Vice President, General Counsel and Corporate Secretary
James P. Dollive	50	Senior Vice President and Chief Financial Officer
Mary Kay Haben	45	Group Vice President, Kraft Foods North America and President, Cheese, Meals and Enhancers Group, Kraft Foods North America
David S. Johnson	45	Group Vice President, Kraft Foods North America and President, Beverages, Desserts and Cereals Group, Kraft Foods North America
Michael B. Polk	41	Group Vice President, Kraft Foods North America and President, Biscuit, Snacks and Confectionery Group, Kraft Foods North America
Irene B. Rosenfeld	49	Group Vice President, Kraft Foods North America, and President, Operations, Technology and Information Systems, Kraft Foods Canada, Mexico and Puerto Rico
Richard G. Searer	48	Group Vice President, Kraft Foods North America and President, Oscar Mayer, Pizza and Food Service Group, Kraft Foods North America
Ronald J.S. Bell	51	Group Vice President, Kraft Foods International and President, European Union Region
Maurizio Calenti	47	Group Vice President, Kraft Foods International and President, Central and Eastern Europe, Middle East and Africa Region
Joachim Krawczyk	50	Group Vice President, Kraft Foods International and President, Latin America Region
Hugh H. Roberts	50	Group Vice President, Kraft Foods International and President, Asia Pacific Region

All of the above-mentioned officers have been employed by the Company in various capacities during the past five years.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The information called for by this Item is hereby incorporated by reference

to the paragraph captioned "Quarterly Financial Data (Unaudited)" on page 55 of the 2001 Annual Report and made a part hereof.

Item 6. Selected Financial Data.

The information called for by this Item is hereby incorporated by reference to the information with respect to 1997-2001 appearing under the caption "Selected Financial Data" on page 38 of the 2001 Annual Report and made a part hereof.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information called for by this Item is hereby incorporated by reference to the paragraphs captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" (the "MD&A") on pages 22 to 37 of the 2001 Annual Report and made a part hereof.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information called for by this Item is hereby incorporated by reference to the paragraphs in the MD&A captioned "Market Risk" and "Value at Risk" on pages 34 to 36 of the 2001 Annual Report and made a part hereof.

Item 8. Financial Statements and Supplementary Data.

The information called for by this Item is hereby incorporated by reference to the 2001 Annual Report as set forth under the caption "Quarterly Financial Data (Unaudited)" on page 55 and in the Index to Consolidated Financial Statements and Schedules (see Item 14) and made a part hereof.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Item 11. Executive Compensation.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 13. Certain Relationships and Related Transactions.

Except for the information relating to the executive officers of the Company set forth in Part I of this Report, the information called for by Items 10-13 is hereby incorporated by reference to the Company's definitive proxy statement for use in connection with its annual meeting of shareholders to be held on April 22, 2002, filed with the Securities and Exchange Commission on March 8, 2002, and, except as indicated therein, is made a part hereof.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Index to Consolidated Financial Statements and Schedules

	Reference	
	Form 10-K Annual Report Page	2001 Annual Report Page
Data incorporated by reference to the Company's 2001 Annual Report:		
Consolidated Balance Sheets at December 31, 2001 and 2000	--	39
Consolidated Statements of Earnings for the years ended December 31, 2001, 2000 and 1999	--	40
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999	--	41
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2001, 2000 and 1999	--	42
Notes to Consolidated Financial Statements	--	43-55
Report of Independent Accountants	--	56
Data submitted herewith:		
Report of Independent Accountants	S-1	--
Financial Statement Schedule--Valuation and Qualifying Accounts	S-2	--

Schedules other than those listed above have been omitted either because such schedules are not required or are not applicable.

(b) Reports on Form 8-K. During the last quarter of 2001, the Company filed Current Reports on Form 8-K on October 18, 2001, covering Item 5 (Other Events) and Item 7 (Financial Statements, Pro Forma Financial Information and Exhibits), which contained the press release announcing the Company's financial results for the quarter ended September 30, 2001, and on November 2, 2001, covering Item 5 (Other Events) and Item 7 (Financial Statements, Pro Forma Financial Information and Exhibits), which contained the terms agreement and certain other documents related to the Company's public offering of debt. Subsequent to December 31, 2001, the Company filed a Current Report on Form 8-K on January 30, 2002, covering Item 5 (Other Events) and Item 7 (Financial Statements, Pro Forma Financial Information and Exhibits), which contained the Company's consolidated financial statements as of and for the year ended December 31, 2001.

(c) The following exhibits are filed as part of this Report (Exhibit Nos. 10.4-10.15 are management contracts, compensatory plans or arrangements):

3.1	Articles of Incorporation of the Registrant(1)
3.2	Articles of Amendment to the Articles of Incorporation of the Registrant(1)
3.3	Registrant's Amended and Restated By-Laws(4)
4.1	Indenture between the Registrant and The Chase Manhattan Bank, Trustee, dated as of October 17, 2001(5)
4.2	The Registrant agrees to furnish copies of any instruments defining the rights of holders of long-term debt of the Registrant and its consolidated subsidiaries that does not exceed 10 percent of the total assets of the Registrant and its consolidated subsidiaries to the Commission upon request.
10.1	Corporate Agreement between Philip Morris Companies Inc. and the Registrant(4)
10.2	Services Agreement between Philip Morris Management Corp. and the Registrant (including Exhibits)(3)

10.3	Tax-Sharing Agreement between Philip Morris Companies Inc. and the Registrant(2)
10.4	2001 Kraft Foods Inc. Performance Incentive Plan(4)
10.5	2001 Kraft Foods Inc. Compensation Plan for Non-Employee Directors(2)
10.6	Form of Employment Agreement entered into by Philip Morris Companies Inc. with each of Betsy D. Holden and Roger K. Deromedi(2)
10.7	Employment Agreement between Philip Morris Companies Inc. and Calvin J. Collier(2)
10.8	Kraft Foods, Inc. Supplemental Benefits Plan I (including First Amendment adding Supplement A)(2)
10.9	Kraft Foods, Inc. Supplemental Benefits Plan II(2)
10.10	Form of Employee Grantor Trust Enrollment Agreement(6)(10)
10.11	The Philip Morris Companies Inc. 1992 Incentive Compensation and Stock Option Plan(7)(10)
10.12	The Philip Morris Companies Inc. 1987 Long Term Incentive Plan(7)(10)
10.13	The Philip Morris Companies Inc. 1997 Performance Incentive Plan(8)(10)
10.14	The Philip Morris Companies Inc. 2000 Performance Incentive Plan(9)(10)
10.15	2001 Kraft Foods Inc. Compensation Plan for Non-Employee Directors (Deferred Compensation)
12	Statements re: computation of ratios(11)
13	Pages 22-56 of the 2001 Annual Report, but only to the extent set forth in Items 1, 3, 5-7, 7A, 8 and 14 hereof. With the exception of the aforementioned information incorporated by reference in this Annual Report on Form 10-K, the 2001 Annual Report is not to be deemed "filed" as a part of this Report.
21	Subsidiaries of the Registrant
23	Consent of PricewaterhouseCoopers LLP, Independent Accountants
24	Powers of Attorney

- ------------

(1) Incorporated by reference to the Registrant's Form S-1 filed with the Securities and Exchange Commission on March 16, 2001 (No. 333-57162).

(2) Incorporated by reference to the Registrant's Amendment No. 1 to Form S-1 filed with the Securities and Exchange Commission on May 2, 2001 (No. 333-57162).

(3) Incorporated by reference to the Registrant's Amendment No. 2 to Form S-1 filed with the Securities and Exchange Commission on May 11, 2001 (No. 333-57162).

(4) Incorporated by reference to the Registrant's Amendment No. 5 to Form S-1 filed with the Securities and Exchange Commission on June 8, 2001 (No. 333-57162).

(5) Incorporated by reference to the Registrant's Form S-3 filed with the Securities and Exchange Commission on August 16, 2001 (No. 333-67770).

(6) Incorporated by reference to the Annual Report on Form 10-K of Philip Morris Companies Inc. ("Philip Morris") for the year ended December 31, 1995 (SEC File No. 1-8940).

(7) Incorporated by reference to the Annual Report on Form 10-K of Philip Morris for the year ended December 31, 1997 (SEC File No. 1-8940).

(8) Incorporated by reference to the Proxy Statement of Philip Morris dated March 10, 1997 (SEC File No. 1-8940).

(9) Incorporated by reference to the Proxy Statement of Philip Morris dated March 10, 2000 (SEC File No. 1-8940).

(10) Compensation plans maintained by Philip Morris and its subsidiaries in which officers of the Registrant have historically participated.

(11) Incorporated by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KRAFT FOODS INC.

By: /s/ JAMES P. DOLLIVE

(James P. Dollive,
Senior Vice President
and Chief Financial Officer)

Date: March 14, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated:

Signature
Title Date -
-------- ---
-- ---- /s/
ROGER K.
DEROMEDI
Director,
Co-Chief
March 14,
2002 - -----

Executive
Officer; and
(Roger K.
Deromedi)
President
and Chief
Executive
Officer,
Kraft Foods
International
/s/ BETSY D.
HOLDEN
Director,
Co-Chief
March 14,
2002 - -----

Executive
Officer; and
(Betsy D.
Holden)
President
and Chief
Executive
Officer,
Kraft Foods
North
America /s/
JAMES P.
DOLLIVE
Senior Vice
President
and March
14, 2002 - -

Chief
Financial
Officer
(James P.
Dollive) /s/
JOHN F.
MOWRER, III
Vice
President
and March
14, 2002 - -

Controller
(John F.
Mowrer, III)

*GEOFFREY C. BIBLE, LOUIS C. CAMILLERI, W. JAMES FARRELL, JOHN C. POPE, MARY L. SCHAPIRO, WILLIAM H. WEBB, DEBORAH C. WRIGHT
Directors

*By: /s/ JAMES P. DOLLIVE March 14, 2002

(James P. Dollive, Attorney-in-fact)

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
KRAFT FOODS INC.:

Our audits of the consolidated financial statements referred to in our report dated January 28, 2002 appearing in the 2001 Annual Report to Shareholders of Kraft Foods Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
January 28, 2002

KRAFT FOODS INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2001, 2000 and 1999
(in millions)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
2001:					
Allowance for discounts.............	$ 7	$ 5	$ 4	$ 5	$ 11
Allowance for doubtful accounts......	165	25	5	27	168
	$172	$30	$ 9	$32	$179
2000:					
Allowance for discounts.............	$ 5	$15	$--	$13	$ 7
Allowance for doubtful accounts......	119	11	65	30	165
	$124	$26	$65	$43	$172
1999:					
Allowance for discounts.............	$ 6	$ 4	$--	$ 5	$ 5
Allowance for doubtful accounts......	120	37	5	43	119
	$126	$41	$ 5	$48	$124

- ------------

Notes:

(a) Primarily related to divestitures, acquisitions and currency translation.

(b) Represents charges for which allowances were created.

Exhibit 10.15

Kraft Foods Inc.

2001 Compensation Plan for Non-Employee Directors

SECTION 1. Purpose; Definitions

The purpose of the Plan is to afford each Non-Employee Director the option to make a Deferral Election to defer the receipt of all or part of his or her Compensation until such future date as he or she may elect pursuant to the terms and conditions of the Plan.

For purposes of the Plan, the following terms are defined as set forth below:

a. "Allocation Date" means the date on which an amount representing all or part of a Participant's Compensation is to be credited to his or her Deferred Fee Account pursuant to a Deferral Election. The Allocation Date for the Retainer Fee shall be the first day of each calendar quarter; the Allocation Date for Meeting Fees shall be the first day of the month following the relevant meeting.

b. "Beneficiary" means any person or entity designated as such in an Election Form. If a Participant has not made a valid designation of a Beneficiary on an Election Form submitted to the Secretary of the Company, or if no designated Beneficiary survives the Participant or is in existence on the date of the Participant's death, the Beneficiary is the Participant's estate.

c. "Board" means the Board of Directors of the Company.

d. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations thereunder.

e. "Common Stock" means the common stock of the Company.

f. "Company" means Kraft Foods Inc., a corporation organized under the laws of the Commonwealth of Virginia, or any successor corporation.

g. "Compensation" means the Retainer Fee and the Meeting Fees payable by the Company to each Participant.

h. "Deferral Election" means the election by a Participant on an Election Form to defer the payment of all or a part of his or her Compensation to be earned and payable after the applicable effective date set forth in Sections 2.1.1 or 2.1.2.

i. "Deferred Amount" means the amount of Compensation (determined as a percentage of the Retainer Fee and the Meeting Fees) subject to a Deferral Election submitted to the Secretary of the Company.

j. "Deferred Fee Account" means an unfunded deferred compensation account established by the Company on behalf of each Non-Employee Director who makes a Deferral Election. The Company may establish more than one Deferred Fee Account on behalf of any Non-Employee Director who submits a Modified Election Form in accordance with Section 2.3.2 to modify his or her election as to the Distribution Date with respect to Compensation to be earned and payable thereafter. Each Deferred Fee Account shall consist of one or more Subaccounts established in accordance with Section 2.2.2.

k. "Deferred Fee Program" means the program established under the provisions of the Plan that permit Participants to defer all or part of their Compensation.

l. "Disability" means permanent and total disability as determined under procedures established by the Board for purposes of the Deferred Fee Program.

m. "Distribution Date" means the date designated by a Participant on an Election Form in accordance with Sections 2.3.1 and 2.3.2 for the payment or commencement of payment of amounts credited to a Deferred Fee Account.

n. "Election Date" means the date an Election Form is received by the Secretary of the Company.

o. "Election Form" means an Initial Election Form or Modified Election Form completed and executed by the Participant. An "Initial Election Form" means the first Election Form that the Participant submits to the Secretary of the Company pursuant to Section 2.1.1. A "Modified Election Form" means an Election Form that the Participant submits to the Secretary of the Company pursuant to Section 2.1.2, 2.1.3, 2.1.4, 2.2.4, and 2.3.2 to modify in whole or in part an Initial Election Form or to modify in whole or in part a Modified Election Form previously submitted to the Secretary of the Company.

p. "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time and the rules and regulations thereunder.

q. "Extraordinary Distribution Request Date" means the date an Extraordinary Distribution Request Form is received by the Secretary of the Company.

r. "Extraordinary Distribution Request Form" means the Extraordinary Distribution Request Form completed and executed by a Participant or Beneficiary who wishes to request an extraordinary distribution of amounts credited to a Deferred Fee Account in accordance with Section 2.3.3.

s. "Fund" means any one of the investment vehicles in which the trust fund established under the trust agreement, as amended from time to time, entered into by the Company (or its delegate) in connection with the Profit-Sharing Plan, is invested.

t. "Meeting Fees" means the portion of a Participant's Compensation that is based upon his or her attendance at Board meetings and meetings of committees of the Board.

u. "Non-Employee Director" means each member of the Board who is not a full-time employee of the Company (or of any Corporation that owns, directly or indirectly, stock possessing at least fifty percent (50%) of the total combined voting power of all classes of stock entitled to vote in the election of the Board or of any corporation in which the Company owns, directly or indirectly, stock possessing at least fifty percent (50%) of the total combined voting power of all classes of stock entitled to vote in the election of directors in such corporation). A "Non-Employee Director" does not include a Director Emeritus of the Company.

v. "Participant" means a Non-Employee Director who elects to make a Deferral Election; provided, however, that a Participant shall also include a person who was, but is no longer, a Non-Employee Director as long as a Deferred Fee Account is being maintained for his or her benefit.

w. "Plan" means this Kraft Foods Inc. 2001 Compensation Plan for Non-Employee Directors, as amended from time to time.

x. "Profit-Sharing Plan" means the Kraft Foods Thrift Plan, as amended from time to time.

y. "Retainer Fee" means the portion of a Participant's Compensation that is fixed and paid without regard to his or her attendance at meetings of the Board or any committee of the Board, including any additional amount paid to a chairman of a committee but shall not include awards of Common Stock, stock options or other noncash compensation paid to a Non-Employee Director.

z. "Subaccount" means one of the bookkeeping accounts established within a Deferred Fee Account in accordance with Section 2.2.2.

aa. "Transfer Election Date" means the date set forth on a Transfer Form.

bb. "Transfer Form" means a Transfer Election Form completed and executed by a Participant or Beneficiary in accordance with Section 2.2.5.

SECTION 2. Deferred Fee Program

2.1 Participation

2.1.1 Deferral Elections

A Non-Employee Director may make a Deferral Election by submitting an Initial Election Form to the Secretary of the Company. Each Non-Employee Director who makes a Deferral Election shall become a Participant in the Deferred Fee Program.

Any Deferral Election relating to Retainer Fees shall be in integral multiples of twenty-five percent (25%) of the Retainer Fee. Any Deferral Election relating to Meeting Fees shall be one hundred percent (100%) of each Meeting Fee.

The Participant shall indicate on the Initial Election Form:

a. the percentage of the Retainer Fee that he or she wishes to defer and whether Meeting Fees are to be deferred;

b. the Distribution Date;

c. the Participant's Beneficiary or Beneficiaries; and

d. the Subaccounts to which the Deferred Amount is to be allocated.

A Deferral Election submitted on an Initial Election Form shall become effective with respect to a Participant's Retainer Fee accruing on and after the first day of the calendar quarter following the Election Date of such Initial Election Form; provided, however, that an Initial Election Form submitted within thirty (30) days of an individual becoming a Non-Employee Director shall become effective with respect to the Participant's Retainer Fee accruing on and after the Election Date of such Initial Election Form. A Deferral Election submitted on an Initial Election Form shall become effective with respect to a Participant's Meeting Fees accruing on and after the first day of the calendar month following the Election Date of such Initial Election Form; provided, however, that an Initial Election Form submitted within thirty (30) days of an individual becoming a Non-Employee Director shall be effective with respect to a Participant's Meeting Fees accruing on and after the Election Date.

A Deferral Election shall remain in effect with respect to all future Compensation until a new Deferral Election made by the Participant on a Modified Election Form in accordance with Section 2.1.2 or Section 2.1.3 becomes effective.

2.1.2 Change of Deferral Election.

A Participant may change his or her Deferral Election with respect to Compensation to be earned and payable thereafter by submitting a Modified Election Form to the Secretary of the Company.

A Modified Election Form which increases the amount of future Compensation to be deferred shall become effective with respect to a Participant's Retainer Fee accruing on and after the first day of the calendar quarter following the Election Date of such Modified Election Form. A Modified Election Form to defer Meeting Fees shall become effective with respect to a Participant's Meeting Fees accruing on and after the first day of the calendar month following the Election Date of such Modified Election Form.

Subject to Section 2.1.3, a Modified Election Form which decreases the amount of future Retainer Fees to be deferred shall become effective with respect to Compensation accruing on and after the later of (i) January 1 (and payable on April 1) of the year following the Election Date of such Modified Election Form, or (ii) the first day of the second calendar quarter (and payable on the first day of the third calendar quarter) following the Election Date of such Modified Election Form.

2.1.3 Cessation of Deferrals

A Participant may cease to defer future Retainer Fees, Meeting Fees or both in the Deferred Fee Program by submitting a Modified Election Form to the Secretary of the Company. An election by a Participant to cease deferrals of Retainer Fees, Meeting Fees or both in the Deferred Fee Program shall become effective with respect to Compensation accruing on or after the later of (i) January 1 (and, with respect to Retainer Fees, payable on April 1) of the year following the Election Date of such Modified Election Form, or (ii) the first day of the second calendar quarter (and, with respect to Retainer Fees, payable on the first day of the third calendar quarter) following the Election Date of such Modified Election Form.

2.1.4 Beneficiary Election Modification

A Participant shall be permitted at any time to modify his or her Beneficiary election, effective as of the Election Date, by submitting a Modified Election Form to the Secretary of the Company.

2.2 Investments

2.2.1 Deferred Fee Accounts

The Company shall establish a Deferred Fee Account for each Participant who has made a Deferral Election pursuant to Section 2.1.1. On each Allocation Date, the Company shall allocate the amount of the Deferred Amount to be credited to each Participant's Deferred Fee Account.

2.2.2 Subaccounts

The Company shall establish within each Deferred Fee Account one or more Subaccounts to which the Deferred Amounts are to be allocated pursuant to the Participant's Election Form or Election Forms. Such Subaccounts shall be credited with earnings and charged with losses, if any, on the same basis as the corresponding Fund, as the same may change from time to time. As of the date hereof, the Subaccounts are, respectively:

A bookkeeping account whose value shall be based on a theoretical investment in the Kraft Foods Stock Fund of the Profit-Sharing Plan or, until such fund is established for the Profit-Sharing Plan, a theoretical investment in Kraft Foods common stock.

A bookkeeping account whose value shall be based on a theoretical investment in the U.S. Obligations Fund of the Profit-Sharing Plan.

A bookkeeping account whose value shall be based on a theoretical investment in the Equity Index Fund of the Profit-Sharing Plan.

A bookkeeping account whose value shall be based on a theoretical investment in the Interest Income Fund of the Profit-Sharing Plan.

A bookkeeping account whose value shall be based on a theoretical investment in the Balanced Fund of the Profit-Sharing Plan.

A bookkeeping account whose value shall be based on a theoretical investment in the International Equity Fund of the Profit-Sharing Plan.

A bookkeeping account whose value shall be based on a theoretical investment in the Growth Equity Fund of the Profit-Sharing Plan.

A bookkeeping account whose value shall be based on a theoretical investment in the Euro Equity Fund of the Profit-Sharing Plan.

A bookkeeping account whose value shall be based on a theoretical investment in the Philip Morris Stock Fund of the Profit-Sharing Plan.

To the extent additional investment vehicles are added to the Fund, the senior Human Resources officer of the Company is authorized to establish corresponding Subaccounts under the Plan.

Subject to the provisions of Sections 2.2.3 and 2.2.4, on each Allocation Date, each Participant's Subaccounts shall be credited with an amount equal to the Deferred Amount designated by the Participant for allocation to such Subaccounts. Each Subaccount shall be credited with earnings and charged with losses as if the amounts allocated thereto had been invested in the corresponding Fund.

The value of any Subaccount at any relevant time shall be determined as if all amounts credited thereto had been invested in the corresponding Fund.

2.2.3 Investment Directions

Each Participant shall make an investment direction on his or her Initial Election Form with respect to the portion of such Participant's Deferred Amount that is to be allocated to a Subaccount. Any apportionment of Deferred Amounts (and of increases or decreases in Deferred Amounts) among the Subaccounts shall be in integral multiples of one percent (1%). An investment direction shall become effective with respect to any Subaccount on the first day of the calendar month following the Election Date of such Election Form. An investment direction shall remain in effect with respect to all future Deferred Amounts until a new investment direction made by the Participant in accordance with Section 2.2.4 becomes effective.

2.2.4 New Investment Directions

A Participant may make a new investment direction with respect to his or her Deferred Amount only by submitting a Modified Election Form to the Secretary of the Company. A new investment direction shall become effective with respect to any Subaccount on the first day of the calendar month following the Election Date of such Modified Election Form.

2.2.5 Investment Transfers

A Participant may transfer to one or more different Subaccounts all or a part (in integral multiples of one percent (1%)) of the amounts credited to a Subaccount by submitting a Transfer Form to the Secretary of the Company; provided however that no Transfer Form with respect to a transfer affecting Subaccount D may be submitted by a Participant if a Transfer Form requesting an opposite way transfer with respect to Subaccount D had been submitted by such Participant within the preceding six months.

Any transfer of amounts among Subaccounts shall become effective on the first day of the calendar month following the Transfer Election Date.

2.2 Distributions

2.3.1 Distribution Elections

Pursuant to Section 2.1.1, each Participant shall designate on his or her Initial Election Form the Distribution Date. A Participant shall designate on his or her Initial Election Form one of the following dates as a Distribution Date with respect to amounts credited to his or her Deferred Fee Account thereafter:

a. the first day of the calendar month following the date of termination of the Participant's service as a member of the Board; or

b. the first day of a calendar month specified by the Participant which is at least six months after the Election Date.

A Distribution Date election shall become effective on the Election Date of such Initial Election Form.

All distributions shall be paid in a lump sum in cash.

2.3.2 Modified Distribution Elections

A Participant may modify his or her election as to the Distribution Date with respect to Compensation to be earned and payable thereafter by submitting a Modified Election Form to the Secretary of the Company. No more than one such modification shall be permitted. Any modification of a Distribution Date election shall become effective on the Election Date of such Modified Election Form.

2.3.3 Extraordinary Distributions

Notwithstanding the foregoing, a Participant may request an extraordinary distribution of all or part of the amount credited to his or her Deferred Fee Account because of hardship. A distribution shall be deemed to be "because of hardship" if such distribution is necessary to alleviate or satisfy an immediate and heavy financial need of the Participant.

A request for an extraordinary distribution shall be made by submitting an Extraordinary Distribution Request Form to the Secretary of the Company. All extraordinary distributions shall be subject to approval by the Board.

The Extraordinary Distribution Request Form shall indicate:

a. the amount to be distributed from the Deferred Fee Account;

b. the Subaccount(s) from which the distribution is to be made; and

c. the "hardship" requiring the distribution.

The amount of any extraordinary distribution shall not exceed the amount determined by the Board to be required to meet the immediate financial need of the Participant.

An extraordinary distribution shall be made with respect to amounts credited to each Subaccount on the first day of the calendar month next following approval of the extraordinary distribution request by the Board; provided, however, that no extraordinary distribution shall be made from Subaccount D if a Transfer Form pursuant to Section 2.2.5 requesting an opposite way transfer with respect to Subaccount D had been submitted by such Participant within the preceding six months.

SECTION 3. General Provisions

3.1 Unfunded Plan

It is intended that the Plan constitute an "unfunded" plan for deferred compensation. The Company may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan; provided, however, that, unless the Company otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

3.2 Rules of Construction

Headings are given to the sections of the Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

3.3 Withholding

No later than the date as of which an amount first becomes includible in the gross income of the Participant for Federal income tax purposes under the Plan, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount.

3.4 Amendment

The Plan may be amended by the Board, but no amendment shall be made that would impair prior rights of a Participant to his or her Deferred Fee Account without his or her consent. No amendment may become effective until shareholder approval is obtained if the amendment (i) materially increases the benefits accruing to Participants under the Plan, or (ii) modifies the eligibility requirements for participation in the Plan.

3.5 Duration of Plan

The Company hopes to continue the Plan indefinitely, but reserves the right to terminate the Plan by appropriate action of the Board at any time. Upon termination of the Plan, amounts then credited to each Deferred Fee Account shall be paid in accordance with the Election Form then governing such Deferred Fee Account or as otherwise provided in Section 2.3.1.

3.6 Assignability

No Participant or Beneficiary shall have the right to assign, pledge or otherwise transfer any payments to which such Participant or Beneficiary may be entitled under the Plan, other than by will or by the laws of descent and distribution or pursuant to a domestic relations order which meets the relevant requirements of a "qualified domestic relations order" (as defined by Section 414(p) of the Code).

3.7 Adoption of Procedures

The Secretary of the Company shall have the authority to adopt such procedures as are appropriate to administer the Plan.

3.8 Construction

The Plan shall be construed and interpreted in accordance with Virginia law. The Plan is intended to be construed so that participation in the Plan will be exempt from Section 16(b) of the Exchange Act pursuant to regulations and interpretations issued from time to time by the Securities and Exchange Commission.

Kraft Foods Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Kraft Foods Inc. ("Kraft"), together with its subsidiaries (collectively referred to as the "Company") is the largest branded food and beverage company headquartered in the United States. Prior to June 13, 2001, the Company was a wholly-owned subsidiary of Philip Morris Companies Inc. ("Philip Morris"). On June 13, 2001, the Company completed an initial public offering ("IPO") of 280,000,000 shares of its Class A common stock at a price of $31.00 per share. The IPO proceeds, net of the underwriting discount and expenses, of $8.4 billion were used to retire a portion of an $11.0 billion long-term note payable to Philip Morris incurred in connection with the acquisition of Nabisco Holdings Corp. ("Nabisco"). After the IPO, Philip Morris owns approximately 83.9% of the outstanding shares of the Company's capital stock through its ownership of 49.5% of the Company's Class A common stock, and 100% of the Company's Class B common stock. The Company's Class A common stock has one vote per share while the Company's Class B common stock has ten votes per share. Therefore, Philip Morris holds 97.7% of the combined voting power of the Company's outstanding common stock.

The Company conducts its global business through two units: Kraft Foods North America, Inc. ("KFNA") and Kraft Foods International, Inc. ("KFI"). KFNA manages its operations by product category, while KFI manages its operations by geographic region. KFNA's segments are Cheese, Meals and Enhancers; Biscuits, Snacks and Confectionery; Beverages, Desserts and Cereals; and Oscar Mayer and Pizza. KFNA's food service business within the United States and its businesses in Canada and Mexico are reported through the Cheese, Meals and Enhancers segment. KFI's segments are Europe, Middle East and Africa; and Latin America and Asia Pacific.

Financial Reporting Release No. 60, which was recently issued by the Securities and Exchange Commission ("SEC"), requires all registrants to discuss critical accounting policies or methods used in the preparation of financial statements. Note 2 to the consolidated financial statements includes a summary of the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. In the opinion of management, the Company does not have any individual accounting policy which is critical to the preparation of its consolidated financial statements. This is due principally to the definitive nature of accounting requirements for consumer products companies. Also, in most instances, the Company must use an accounting policy or method because it is the only policy or method permitted under accounting principles generally accepted in the United States of America ("U.S. GAAP"). The following is a review of the more significant accounting policies and methods used by the Company:

Revenue Recognition: As required by U.S. GAAP, the Company recognizes operating revenues upon shipment of products to customers when title and risk of loss pass to its customers. Provisions and allowances for sales returns and bad debts are also recorded in the Company's consolidated financial statements. The amounts recorded for these provisions and related allowances are not significant to the Company's consolidated financial position or results of operations. As discussed in Note 2 to the consolidated financial statements, effective January 1, 2002, the Company will adopt new required accounting standards mandating that certain costs currently reported as marketing, administration and research costs be shown as a reduction of operating revenues or an increase in cost of sales. As a result, previously reported revenues will be reduced by approximately $4.6 billion, $3.6 billion and $3.4 billion for 2001, 2000 and 1999, respectively. The adoption of the new accounting standards will have no impact on net earnings or basic or diluted earnings per share.

Depreciation and Amortization: The Company depreciates property, plant and equipment and amortizes goodwill and other intangible assets using straight-line methods. Through December 31, 2001, the Company used forty years to amortize goodwill and other intangible assets, in recognition of the strength of its brands, which resulted in amortization expense of $962 million for the year ended December 31, 2001. Beginning on January 1, 2002, with the adoption of a new required accounting standard, the Company will no longer be required to amortize a substantial portion of its goodwill and other intangible assets. As a result, the Company estimates that amortization expense will approximate $10 million for the year ending December 31, 2002. The Company will also be required to continue to review annually its goodwill and other intangible assets for possible impairment or loss of value. However, the Company does not currently anticipate having to record an impairment loss when it adopts the new standard.

Marketing Costs: As required by U.S. GAAP, the Company records marketing costs as an expense in the year to which such costs relate. The Company does not defer the recognition of any amounts on its consolidated balance sheet with respect to marketing costs. The Company expenses advertising costs as incurred in the period in which the related advertisement initially appears. The Company records consumer incentive and trade promotion costs as an expense in the period in which these programs are offered, based on estimates of utilization and redemption rates that are developed from historical information. As discussed above under "Revenue Recognition," beginning January 1, 2002, the Company will adopt the previously mentioned revenue recognition accounting standards mandating that certain costs currently reported as marketing expense be shown as a reduction of operating revenues or an increase in cost of sales. As a result, previously reported amounts for marketing, administration and research costs will be reduced by approximately $4.7 billion, $3.7 billion and $3.4 billion for 2001, 2000 and 1999, respectively. The adoption of the new accounting standards will have no impact on net earnings or basic or diluted earnings per share.

Hedging Instruments: As of January 1, 2001, the Company adopted the provisions

of a new required accounting standard, which did not have a material effect on net earnings (less than $1 million) or accumulated other comprehensive losses (less than $1 million). The new accounting standard requires that the fair value of all derivative financial instruments be recorded on the Company's consolidated balance sheet as assets or liabilities. Substantially all of the Company's derivative financial instruments are effective as hedges under the new standard; accordingly, the changes in their

fair value are recognized in earnings when the related hedged items are recorded in earnings. During 2001, the Company recognized deferred losses of $15 million in earnings, which offset the impact of gains on the related hedged items. In Note 16 of the notes to consolidated financial statements, the Company has included a detailed discussion of the types of exposures that it periodically hedges, as well as a summary of the various instruments which it utilizes. The Company does not use derivative financial instruments for speculative purposes.

Employee Benefit Plans: The Company and its subsidiaries provide a range of benefits to their employees and retired employees, including pensions, postretirement health care benefits and postemployment benefits (primarily severance). The Company records annual amounts relating to these plans based on calculations specified by U.S. GAAP, which include various actuarial assumptions, such as discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. As required by U.S. GAAP, the effect of the modifications is generally recorded or amortized over future periods. The Company believes that the assumptions utilized in recording its obligations under its plans, which are presented in Note 14 to the consolidated financial statements, are reasonable based on its experience and advice from its actuaries.

Related Party Transactions: As discussed in Note 3 to the Company's consolidated financial statements, Philip Morris and certain of its affiliates provide the Company with various services, including planning, legal, treasury, accounting and financial services, auditing, insurance, human resources, office of the secretary, corporate affairs, information technology and tax services. Billings for these services were $339 million in 2001, $248 million in 2000 and $165 million in 1999. The increases reflect information services and financial services that were previously performed by the Company, but are now provided by Philip Morris at approximately the same cost. Although the value of services provided by Philip Morris 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 that the charges reflect all services provided.

The Company also has long-term notes payable to Philip Morris of $5.0 billion at December 31, 2001 and $21.4 billion at December 31, 2000. A significant portion of the amount outstanding at December 31, 2000 related to borrowings for the acquisition of Nabisco. The decrease from 2000 to 2001 reflects the repayment of borrowings with proceeds from the IPO, a public global bond offering and short-term borrowings. The interest rates on the debt with Philip Morris were established at market rates available to Philip Morris at the time of issuance for similar debt with matching maturities. However, the $5.0 billion remaining long-term note payable to Philip Morris has no prepayment penalty, and the Company may repay some or all of the note with the proceeds from external debt offerings in the current low interest rate environment.

In addition,the accounts of the Company are included in the consolidated federal income tax return of Philip Morris. To the extent that foreign tax credits, capital losses and other credits generated by the Company, which cannot be utilized on a stand-alone basis,are utilized in Philip Morris' consolidated federal income tax return,the benefit is recognized in the Company's calculation of its provision for income taxes. The Company's provisions for income taxes for the years ended December 31, 2001, 2000 and 1999 were lower than provisions calculated on a stand-alone basis by $185 million, $139 million and $107 million, respectively.

The preparation of all financial statements includes the use of estimates and assumptions that affect a number of amounts included in the Company's financial statements, including, among other things, employee benefit costs and related disclosures, inventories under the last-in-first-out ("LIFO") method, marketing costs (advertising, consumer incentives and trade promotions), environmental costs and income taxes. The Company bases its estimates on historical experience and other assumptions which it believes are reasonable. If actual amounts are ultimately different from previous estimates, the revisions are included in the Company's results for the period in which the actual amounts become known. Historically, the aggregate differences, if any, between the Company's estimates and actual amounts in any year have not had a significant impact on the Company's consolidated financial statements.

Business Environment

The Company is subject to fluctuating commodity costs, currency movements and competitive challenges in various product categories and markets, including a trend toward increasing consolidation in the retail trade and consequent inventory reductions and changing consumer preferences. Certain competitors may have different profit objectives and some international competitors may be less susceptible to currency exchange rates. To confront these challenges, the Company continues to take steps to build the value of its brands and improve its food business portfolio with new products and marketing initiatives.

Fluctuations in commodity costs can cause retail price volatility, intensify price competition and influence consumer and trade buying patterns. KFNA's and KFI's businesses are subject to fluctuating commodity costs, including dairy, coffee bean and cocoa costs. Dairy commodity costs on average have been higher in 2001 than those seen in 2000. Cocoa bean prices have also been higher, while coffee bean prices have been lower than in 2000. During the latter part of 2000 and into 2001, energy costs rose in response to higher prices charged for oil and natural gas. However, this increase in energy costs did not have a material adverse effect on the operating results of the Company.

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 was consolidated with the Company as of December 31, 2000, and beginning January 1, 2001, Nabisco's earnings have been included in the consolidated operating results of the Company; however, Nabisco's earnings from December 11, 2000 to December 31, 2000 were not included in the consolidated operating results of the Company since such amounts were insignificant. The Company's interest cost associated with acquiring Nabisco has been included in interest and other debt expense, net, on the Company's consolidated statements of earnings for the years ended December 31, 2001 and 2000.

The integration of Nabisco into Kraft has continued throughout 2001. The closure of a number of Nabisco domestic and international facilities resulted in severance and other exit costs of $379 million, which are included in the adjustments for the allocation of purchase price. The closures will result in the termination of approximately 7,500 employees and will require total cash payments of $373 million, of which approximately $74 million has been spent through December 31, 2001. Substantially all of the closures will be completed by the end of 2002.

The integration of Nabisco into the operations of the Company will also result in the closure or reconfiguration of several of the Company's existing facilities. The aggregate charges to the Company's consolidated statement of earnings to close or reconfigure its facilities and integrate Nabisco are estimated to be in the range of $200 million to $300 million. During 2001, the Company incurred pre-tax integration costs of $53 million for site reconfigurations and other consolidation programs in the United States.

During 2001, the Company purchased coffee businesses in Romania, Morocco and Bulgaria and also acquired confectionery businesses in Russia and Poland. The total cost of these and other smaller acquisitions was $194 million. The operating results of these businesses were not material to the Company's consolidated 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 privately held manufacturer and marketer of soy-based meat alternatives. The total cost of these and other smaller acquisitions was $365 million. The operating results of these businesses were not material to the Company's consolidated financial position or results of operations in any of the periods presented.

During 2001, 2000 and 1999, the Company sold several small businesses, including a French confectionery business in 2000. The aggregate proceeds received in these transactions during 2001, 2000 and 1999 were $21 million, $300 million and $175 million, respectively, on which pre-tax gains of $8 million, $172 million and $62 million, respectively, were recorded. The operating results of businesses divested were not material to the consolidated operating results of the Company in any of the periods presented.

Euro: Twelve of the fifteen member countries of the European Union have established fixed conversion rates between their existing currencies and one common currency--the euro. In January 2002, the new euro-denominated currency (bills and coins) was issued. The Company's operating subsidiaries affected by the euro conversion have addressed the systems and business issues raised by the euro currency conversion. These issues included, among others: (1) the need to adapt computer and other business systems and equipment to accommodate euro-denominated transactions; and (2) the competitive impact of cross-border price transparency, which makes it more difficult for businesses to charge different prices for the same products on a country-by-country basis. The euro conversion has not had, and the Company currently anticipates that it will not have, a material adverse impact on its financial condition or results of operations.

Century Date Change: The Company did not experience any material disruptions to its business as a result of the Century Date Change ("CDC"). The Company's increases in 1999 year-end inventories and trade receivables caused by preemptive CDC contingency plans resulted in incremental cash outflows during 1999 of approximately $155 million. The cash outflows reversed in the first quarter of 2000. In addition, the Company had increased shipments in the fourth quarter of 1999 because customers purchased additional product in anticipation of potential CDC- related disruptions. The increased shipments in 1999 resulted in estimated incremental operating revenues and operating companies income in 1999 of approximately $97 million and $40 million, respectively, and corresponding decreases in operating revenues and operating companies income in 2000.

53rd Week and Trade Inventory Reductions: The Company's subsidiaries end their fiscal years on the last Saturday in December. Accordingly, most years contain 52 weeks of operating results while every fifth or sixth year includes 53 weeks. The Company's consolidated statement of earnings for the year ended December 31, 2000 included a 53rd week. The benefit to 2000 operating results from an extra week of shipments was partially offset by inventory reductions undertaken by trade customers for certain of the Company's products. A reduction in trade inventories also occurred in 2001. The net result is that Kraft's 2001 volume and revenue comparisons to 2000 were affected by the extra week of shipments in 2000. Volume comparisons contained in Management's Discussion and Analysis for 2001 versus 2000 have been provided on a comparable 52-week basis to provide a more meaningful comparison of operating results.

Separation Programs: In October 2001, the Company announced that it was offering a voluntary retirement program to certain salaried employees in the United States. The program is expected to terminate approximately 750 employees and will result in an estimated pre-tax charge of approximately $140 million upon final employee acceptance in the first quarter of 2002. This pre-tax charge is part of the previously discussed $200 million to $300 million in pre-tax charges related to the integration of Nabisco.

During 1999, KFNA 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 elected to retire or terminate. As a result, the Company recorded a pre-tax charge of $157 million in 1999. This charge was included in marketing, administration and research costs in the consolidated statements 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.

Consolidated Operating Results

The acquisition of Nabisco and subsequent IPO were significant events that affect the comparability of earnings. In order to isolate the financial effects of these events, and to provide a more meaningful comparison of the Company's results of operations, the following tables and the subsequent discussion of the Company's consolidated operating results refer to results on a reported, underlying and pro forma basis. Reported results include the operating results of Nabisco in 2001, but not in 2000 and 1999. Reported results also reflect average shares of common stock outstanding during 2001, and reflect an average of 1.455 billion shares outstanding during 2000 and 1999. Underlying results include the operating results of Nabisco in 2001, but not in 2000 and 1999, and adjust for certain unusual items as detailed on the tables, such as results from operations divested since the beginning of 1999. Pro forma results assume the Company owned Nabisco for all of 2000. In addition, pro forma results reflect common shares outstanding of 1.735 billion based on the assumption that shares issued immediately following the IPO were outstanding during 2001 and 2000, and that, effective January 1, 2000, the net proceeds of the IPO were used to retire a portion of a long-term note payable used to finance the Nabisco acquisition. Pro forma results also adjust for certain unusual items as detailed on the tables, such as the results from operations divested since the beginning of 2000.

Consolidated Operating Results

(in millions)

Year Ended December 31,	2001	2000	1999
Reported volume (in pounds):			
Kraft Foods North America			
Cheese, Meals and Enhancers	5,219	4,820	4,874
Biscuits, Snacks and Confectionery	2,350	54	47
Beverages, Desserts and Cereals	3,421	3,117	2,883
Oscar Mayer and Pizza	1,519	1,507	1,433
Total Kraft Foods North America	12,509	9,498	9,237
Kraft Foods International			
Europe, Middle East and Africa	2,826	2,829	2,816
Latin America and Asia Pacific	2,057	803	764
Total Kraft Foods International	4,883	3,632	3,580
Total reported volume	17,392	13,130	12,817
Reported operating revenues:			
Kraft Foods North America			
Cheese, Meals and Enhancers	$10,256	$ 9,405	$ 9,360
Biscuits, Snacks and Confectionery	5,917	329	265
Beverages, Desserts and Cereals	5,370	5,266	5,074
Oscar Mayer and Pizza	3,563	3,461	3,198
Total Kraft Foods North America	25,106	18,461	17,897
Kraft Foods International			
Europe, Middle East and Africa	6,339	6,824	7,676
Latin America and Asia Pacific	2,430	1,247	1,224
Total Kraft Foods International	8,769	8,071	8,900
Total reported operating revenues	$33,875	$26,532	$26,797

Reported operating

companies income:			
Kraft Foods North America			
Cheese, Meals and Enhancers	$ 2,099	$ 1,845	$ 1,658
Biscuits, Snacks and Confectionery	966	100	73
Beverages, Desserts and Cereals	1,192	1,090	1,009
Oscar Mayer and Pizza	539	512	450
Total Kraft Foods North America	4,796	3,547	3,190
Kraft Foods International			
Europe, Middle East and Africa	861	1,019	895
Latin America and Asia Pacific	378	189	168
Total Kraft Foods International	1,239	1,208	1,063
Total reported operating companies income	$ 6,035	$ 4,755	$ 4,253

Kraft Foods Inc.

The following is a reconciliation of reported operating results to underlying and pro forma operating results:

(in millions)			
Year Ended December 31,	2001	2000	1999
Reported volume (in pounds)	17,392	13,130	12,817
Volume of businesses sold	(18)	(82)	(176)
Estimated impact of century date change		55	(55)
Underlying volume (in pounds)	17,374	13,103	12,586
Nabisco volume		3,852	
Pro forma volume (in pounds)	17,374	16,955	
Reported operating revenues	$ 33,875	$ 26,532	$ 26,797
Operating revenues of businesses sold	(4)	(162)	(373)
Estimated impact of century date change		97	(97)
Underlying operating revenues	33,871	26,467	$ 26,327
Nabisco operating revenues		7,566	
Pro forma operating revenues	$ 33,871	$ 34,033	
Reported operating companies income	$ 6,035	$ 4,755	$ 4,253
Operating companies income of businesses sold	(1)	(39)	(64)
Estimated impact of century date change		40	(40)
Loss on the sale of a North American food factory and integration costs	82		
Separation programs			157
Gain on sale of a French confectionery business		(139)	
Underlying operating companies income	6,116	4,617	$ 4,306
Nabisco operating companies income		999	
Pro forma operating companies income	$ 6,116	$ 5,616	

2001 compared with 2000

Reported volume for 2001 increased 4,262 million pounds (32.5%) over 2000, due primarily to the acquisition of Nabisco. Pro forma volume increased 2.5% over 2000. Excluding the 53rd week of shipments in 2000, volume increased 3.7%, reflecting new product introductions and volume gains in developing markets.

Reported operating revenues for 2001 increased $7,343 million (27.7%) over 2000, due primarily to the acquisition of Nabisco. Pro forma operating revenues decreased slightly from 2000, due primarily to the 53rd week of sales in 2000, the adverse effect of currency exchange rates and lower sales prices on coffee products (driven by commodity-related price declines), partially offset by the favorable impact of volume growth.

Reported operating companies income, which is defined as operating income before general corporate expenses and amortization of goodwill and other intangible assets, was affected by the following unusual items during 2001 and 2000:

- Sale of Food Factory and Integration Costs: During 2001, the Company recorded pre-tax charges of $53 million for site reconfigurations and other consolidation programs in the United States. In addition, the Company recorded a pre-tax charge of $29 million related to the sale of a North American food factory. These pre-tax charges, which aggregate $82 million, were included in marketing, administration and research costs in the consolidated statement of earnings for the following segments: Cheese, Meals and Enhancers, $63 million; Biscuits, Snacks and Confectionery, $2 million; Beverages, Desserts and Cereals, $12 million; and Oscar Mayer and Pizza, $5 million.

- Sale of French Confectionery Business: During 2000, the Company sold a French confectionery business ("French Confectionery Sale") for proceeds of $251 million on which a pre-tax gain of $139 million was recorded. The pre-tax gain is included in the Europe, Middle East and Africa segment's marketing, administration and research costs in the consolidated statement of earnings.

The operating companies income comparison was also affected by approximately $40 million of operating income from the previously mentioned CDC sales.

Reported operating companies income increased $1,280 million (26.9%) over 2000, due primarily to the acquisition of Nabisco. On a pro forma basis, operating companies income increased $500 million (8.9%), driven by volume growth, productivity savings and Nabisco synergies, partially offset by unfavorable currency movements.

Currency movements have decreased operating revenues by $522 million and operating companies income by $60 million from 2000. Decreases in operating revenues and operating companies income are due to the strength of the U.S. dollar against the euro, Canadian dollar and certain Asian and Latin American currencies. Although the Company cannot predict future movements in currency exchange rates, the strength of the U.S. dollar, primarily against the euro and Asian currencies, if sustained during 2002, could continue to have an unfavorable impact on operating revenues and operating companies income comparisons.

Reported interest and other debt expense, net, increased $840 million in 2001. This increase was due primarily to notes issued to Philip Morris in the fourth quarter of 2000 to finance the acquisition of Nabisco. On a pro forma basis, interest and other debt expense, net, decreased $213 million in 2001 from $1,348 million in 2000. This decrease in pro forma interest expense is due to the use of free cash flow to repay debt and ongoing efforts to externally refinance debt payable to Philip Morris in the current low interest rate environment.

During 2001, the Company's reported effective tax rate increased by 4.0 percentage points to 45.4% as compared with 2000, due primarily to higher Nabisco-related goodwill amortization, which is not tax deductible.

Reported diluted and basic earnings per share ("EPS"), which were both $1.17 for 2001, decreased by 15.2% from 2000, due primarily to higher levels of goodwill amortization and interest expense associated with the acquisition of Nabisco. Reported net earnings of $1,882 million for 2001 decreased $119 million (5.9%) from 2000. On a pro forma basis, diluted and basic EPS, which were both $1.21 for 2001, increased by 19.8% over 2000, due primarily to higher operating results in all segments. Pro forma net earnings of $2,092 million for 2001 increased $347 million (19.9%) from 2000.

2000 compared with 1999

Reported volume for 2000 increased 313 million pounds (2.4%) over 1999. Reported volume in 2000 benefited from the inclusion of 53 weeks in 2000 operating results, partially offset by a decrease related to trade inventory reductions in the United States. Volume increased in every segment except Cheese, Meals and Enhancers, where a decrease in lower-margin food service products more than offset volume increases in higher margin products. On an underlying basis, volume increased 4.1%.

Reported operating revenues for 2000 decreased $265 million (1.0%) from 1999, due primarily to unfavorable currency movements ($857 million), the estimated shift in CDC revenues ($194 million) and revenues from divested businesses, partially offset by higher volume/mix ($756 million), the impact of acquisitions ($148 million) and higher pricing ($49 million). On an underlying basis, operating revenues increased 0.5%.

Reported operating companies income for 2000 increased $502 million (11.8%) over 1999, due primarily to higher volume/mix ($387 million), higher margins ($402 million, due primarily to price increases and lower commodity and manufacturing costs), 1999 separation charges ($157 million) and the gain on the French Confectionery Sale in 2000 ($139 million), partially offset by higher marketing expenses ($366 million), unfavorable currency movements ($91 million), the shift in CDC income ($80 million) and the impact of divested businesses. On an underlying basis, operating companies income increased 7.2%.

Interest and other debt expense, net, increased $58 million (10.8%), due primarily to the notes issued to Philip Morris in connection with the acquisition of Nabisco.

During 2000, the Company's reported effective tax rate decreased 0.9 percentage points to 41.4%. This decrease was due primarily to a reduction in state and local income taxes resulting from the mix of pre-tax earnings in various states.

Reported net earnings in 2000 increased $248 million (14.1%) and 2000 basic and diluted earnings per share each increased by 15.0%. On an underlying basis, net earnings of $1.9 billion increased 6.6% over $1.8 billion in 1999, and basic and diluted earnings per share each grew 7.2% from $1.25 in 1999 to $1.34 in 2000.

Operating Results by Reportable Segment

Kraft Foods North America

(in millions)

Year Ended December 31,	2001	2000	1999
Reported volume (in pounds):			
Cheese, Meals and Enhancers	5,219	4,820	4,874
Biscuits, Snacks and Confectionery	2,350	54	47
Beverages, Desserts and Cereals	3,421	3,117	2,883
Oscar Mayer and Pizza	1,519	1,507	1,433
Total reported volume (in pounds)	12,509	9,498	9,237
Volume of businesses sold:			
Cheese, Meals and Enhancers		(5)	(13)
Estimated impact of century date change:			
Cheese, Meals and Enhancers		16	(16)
Biscuits, Snacks and Confectionery		1	(1)
Beverages, Desserts and Cereals		19	(19)
Oscar Mayer and Pizza		5	(5)
Underlying volume (in pounds)	12,509	9,534	9,183
Nabisco volume:			
Cheese, Meals and Enhancers		418	
Biscuits, Snacks and Confectionery		2,260	
Beverages, Desserts and Cereals		41	
Pro forma volume (in pounds)	12,509	12,253	
Reported operating revenues:			
Cheese, Meals and Enhancers	$ 10,256	$ 9,405	$ 9,360
Biscuits, Snacks and Confectionery	5,917	329	265
Beverages, Desserts and Cereals	5,370	5,266	5,074
Oscar Mayer and Pizza	3,563	3,461	3,198
Total reported operating revenues	25,106	18,461	17,897

Operating revenues of businesses sold:			
Cheese, Meals and Enhancers		(10)	(25)
Estimated impact of century date change:			
Cheese, Meals and Enhancers		34	(34)
Biscuits, Snacks and Confectionery		3	(3)
Beverages, Desserts and Cereals		22	(22)
Oscar Mayer and Pizza		12	(12)
Underlying operating revenues	25,106	18,522	$17,801
Nabisco operating revenues:			
Cheese, Meals and Enhancers		843	
Biscuits, Snacks and Confectionery		5,429	
Beverages, Desserts and Cereals		107	
Pro forma operating revenues	$ 25,106	$ 24,901	

Kraft Foods North America (continued)

(in millions)			
Year Ended December 31,	2001	2000	1999
Reported operating companies income:			
Cheese, Meals and Enhancers	$ 2,099	$ 1,845	$ 1,658
Biscuits, Snacks and Confectionery	966	100	73
Beverages, Desserts and Cereals	1,192	1,090	1,009
Oscar Mayer and Pizza	539	512	450
Total reported operating companies income	4,796	3,547	3,190
Operating companies income of businesses sold:			
Cheese, Meals and Enhancers		(4)	(8)
Estimated impact of century date change:			
Cheese, Meals and Enhancers		15	(15)
Biscuits, Snacks and Confectionery		1	(1)
Beverages, Desserts and Cereals		7	(7)
Oscar Mayer and Pizza		4	(4)
Loss on sale of a North American food factory and integration costs:			
Cheese, Meals and Enhancers	63		
Biscuits, Snacks and Confectionery	2		
Beverages, Desserts and Cereals	12		
Oscar Mayer and Pizza	5		
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	4,878	3,570	$ 3,312
Nabisco operating companies income:			
Cheese, Meals and Enhancers		201	
Biscuits, Snacks and Confectionery		676	
Beverages, Desserts and Cereals		28	
Pro forma operating companies income	$ 4,878	$ 4,475	

2001 compared with 2000

KFNA's reported volume for 2001 increased 31.7% over 2000, due primarily to the acquisition of Nabisco. On a pro forma basis, volume for 2001 increased 2.1%, or 3.4% excluding the 53rd week of shipments in 2000. The increase was due primarily to higher shipments across all segments and reflects contributions from new products.

Reported operating revenues increased $6.6 billion (36.0%) over 2000, due primarily to the acquisition of Nabisco ($6.6 billion) and the shift in CDC revenues ($71 million), partially offset by unfavorable currency movements ($62 million). On a pro forma basis, operating revenues increased 0.8%, due primarily to higher revenues from the Biscuits, Snacks and Confectionery segment and the Oscar Mayer and Pizza segment, partially offset by the impact of the 53rd week in 2000.

Reported operating companies income for 2001 increased $1,249 million (35.2%) over 2000, due primarily to the acquisition of Nabisco ($1.2 billion), lower marketing, administration and research costs ($177 million) and the shift in CDC income ($27 million), partially offset by lower margins ($39 million, driven by higher dairy commodity-related costs) and the loss on the sale of a North American food factory and integration costs ($82 million). On a pro forma basis, operating companies income increased 9.0%.

The following discusses operating results within each of KFNA's reportable segments.

Cheese, Meals and Enhancers: Reported volume in 2001 increased 8.3% over 2000, due primarily to the acquisition of Nabisco. On a pro forma basis, volume in 2001 decreased 0.6% due primarily to the 53rd week of shipments in 2000. Excluding the 53rd week of shipments in 2000, volume increased 0.9%, as volume gains in meals, enhancers and Canada were partially offset by declines in cheese and food services. Meals recorded volume gains, reflecting higher shipments of macaroni & cheese dinners. Enhancers also recorded volume gains, reflecting higher shipments of spoonable and pourable dressings. In Canada, volume grew on higher shipments of branded products. In cheese, shipments decreased due primarily to the Company's decision to exit the lower-margin, non-branded cheese business. Volume also declined in process cheese loaves and cream cheese, as retailers continued to reduce trade inventory levels, partially offset by higher volume in grated and natural cheese. In U.S. food service, shipments declined due to weakness in the economy and the Company's exit from lower-margin businesses.

During 2001, reported operating revenues increased $851 million (9.0%) over

2000, due primarily to the acquisition of Nabisco ($861 million), higher pricing ($89 million, primarily related to higher dairy commodity costs) and the shift in CDC revenues ($34 million), partially offset by lower volume/mix ($65 million) and unfavorable currency movements ($62 million). On a pro forma basis, operating revenues decreased slightly from the comparable period of 2000, as unfavorable currency and lower volume/mix were partially offset by higher pricing in cheese and food service.

Reported operating companies income for 2001 increased $254 million (13.8%) over 2000, due primarily to the acquisition of Nabisco ($234 million), lower marketing, administration and research costs ($173 million, primarily lower marketing expense) and the shift in CDC income ($15 million), partially offset by unfavorable margins due to higher dairy commodity costs ($81 million) and the loss on the sale of a North American food factory and integration costs ($63 million). Marketing expense decreased due to lower price promotions on cheese products as cheese commodity costs increased. This followed a period of heavy price promotion in 2000, when low cheese commodity costs drove a period of intense price competition. On a pro forma basis, operating companies income increased 5.1%.

Biscuits, Snacks and Confectionery: Reported volume in 2001 increased more than 100% over 2000, due to the acquisition of Nabisco. On a pro forma basis, volume in 2001 increased 1.5% over 2000. Excluding the 53rd week of shipments in 2000, volume increased 1.6%, due primarily to new product introductions in biscuits, partially offset by lower shipments of snack nuts.

During 2001, reported operating revenues increased $5.6 billion or more than 100% over 2000, due to the acquisition of Nabisco. On a pro forma basis, operating revenues increased 2.7%, due primarily to higher volume driven by new biscuit products and higher pricing of biscuit and confectionery products.

Reported operating companies income for 2001 increased $866 million, or more than 100% over 2000, due primarily to the acquisition of Nabisco ($925 million), partially offset by higher marketing, administration and research costs ($39 million). On a pro forma basis, operating companies income increased 24.6%, due primarily to higher volume from new biscuit products, lower commodity costs for snack nuts, and productivity and Nabisco synergy savings.

Beverages, Desserts and Cereals: Reported volume in 2001 increased 9.8% over 2000, due primarily to growth in beverages. On a pro forma basis, volume in 2001 increased 7.7% over 2000. Excluding the 53rd week of shipments in 2000, volume increased 9.3%, due primarily to increased shipments of ready-to-drink beverages, benefiting from the introduction of new products. Desserts volume was below the prior year due to lower shipments of dry packaged desserts and frozen toppings. Cereal volume declined due primarily to weak category performance and increased competition in the ready-to-eat cereal category.

During 2001, reported operating revenues increased $104 million (2.0%) over 2000, due primarily to the acquisition of Nabisco ($93 million), the acquisition of Balance Bar Co. ($20 million), the shift in CDC revenues ($22 million) and higher volume/mix ($17 million), partially offset by lower pricing ($49 million, due primarily to coffee commodity-related price reductions). On a pro forma basis, operating revenues decreased 0.5%, reflecting commodity-related price reductions on coffee products and lower shipments in desserts and cereals.

Reported operating companies income for 2001 increased $102 million (9.4%) over 2000, primarily reflecting higher margins ($87 million), the acquisition of Nabisco ($32 million), lower marketing, administration and research costs ($21 million) and the shift in CDC income ($7 million), partially offset by integration costs ($12 million). On a pro forma basis, operating companies income increased 7.0%.

Oscar Mayer and Pizza: Reported volume in 2001 increased 0.8% over 2000. Excluding the 53rd week of shipments in 2000, volume increased 2.3%, due to volume gains in processed meats and pizza. The processed meats business recorded volume gains in luncheon meats, hot dogs, bacon and soy-based meat alternatives. Volume in the pizza business increased, driven by new products.

During 2001, reported operating revenues increased $102 million (2.9%) over 2000 due primarily to higher volume/mix ($75 million), the shift in CDC revenues ($12 million) and the acquisition of Boca Burger, Inc.

Reported operating companies income for 2001 increased $27 million (5.3%) over 2000 primarily reflecting higher volume/mix ($45 million), lower marketing, administration and research costs ($22 million) and the shift in CDC income, partially offset by unfavorable margins ($36 million, due primarily to higher meat and cheese commodity costs).

2000 compared with 1999

KFNA's reported volume for 2000 increased 2.8% over 1999. On an underlying basis, volume increased 3.8%, including the benefit related to the 53rd week of shipments, partially offset by a decrease related to trade inventory reductions in 2000.

Reported operating revenues increased $564 million (3.2%) over 1999, due primarily to higher volume/mix ($465 million), the impact of acquisitions ($148 million) and higher pricing ($79 million), partially offset by the shift in CDC revenues ($142 million).

Reported operating companies income increased $357 million (11.2%) over 1999, due primarily to higher margins ($318 million, driven by higher pricing and lower commodity-related costs), the 1999 pre-tax charge for separation programs ($157 million) and higher volume/mix ($240 million), partially offset by higher marketing, administration and research costs ($310 million, the majority of which related to higher marketing expenses) and the shift in CDC income ($54 million). On an underlying basis, operating companies income increased 7.8%.

The following discusses operating results within each of KFNA's reportable segments.

Cheese, Meals and Enhancers: Reported volume in 2000 decreased 1.1% from 1999, due primarily to a decrease in the United States food service business, which more than offset an increase in retail businesses. The decrease in food service volume was due to the expiration of an exclusive distribution agreement, 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. On an underlying basis, volume decreased 0.3%.

Reported operating revenues increased $45 million (0.5%) over 1999, due primarily to higher volume/mix ($99 million, primarily favorable product mix from the pruning of low margin products) and favorable currency movements ($30 million), partially offset by the shift in CDC revenues ($68 million) and the

impact of divestitures ($15 million).

Kraft Foods Inc.

Reported operating companies income increased $187 million (11.3%) over 1999 due to higher margins ($254 million, driven by lower commodity-related and manufacturing costs), higher volume/mix ($67 million) and the 1999 separation charge ($71 million), partially offset by higher marketing, administration and research costs ($171 million, the majority of which related to higher marketing expenses) and the shift in CDC income ($30 million). Marketing expense increased as the Company 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. On an underlying basis, operating companies income increased 8.8%.

Biscuits, Snacks and Confectionery: Reported volume in 2000 increased 14.9% over 1999, reflecting the continued success of two-compartment snacks and the introduction of new intense mint and chocolate products.

Reported operating revenues increased $64 million (24.2%) over 1999, due primarily to higher volume/mix. Reported operating companies income increased $27 million (37.0%) over 1999, due primarily to higher volume/mix ($45 million) and the 1999 separation charge, partially offset by higher marketing, administration and research costs ($24 million). On an underlying basis, operating companies income increased 36.5%.

Beverages, Desserts and Cereals: Reported volume in 2000 increased 8.1% from 1999. Beverages volume grew on the strength of ready-to-drink beverages, reflecting new product introductions, and higher coffee shipments due to growth in Starbucks grocery coffee. Volume also grew in frozen whipped toppings, due in part to the introduction of new products. These increases were partially offset by lower volume in ready-to-eat cereals, due to aggressive competitive activity, and lower volume in dry packaged desserts, reflecting lower promotions. On an underlying basis, volume increased 9.5%, of which 0.6 percentage points related to the acquisition of Balance Bar Co.

Reported operating revenues increased $192 million (3.8%) over 1999, due primarily to higher volume/mix ($126 million) and the acquisition of Balance Bar Co. ($113 million), partially offset by the shift in CDC revenues ($44 million).

Reported operating companies income increased $81 million (8.0%) over 1999, due primarily to higher volume/mix ($50 million), the 1999 separation charges ($46 million), higher margins ($20 million, due primarily to lower commodity costs) and the acquisition of Balance Bar Co., partially offset by higher marketing, administration and research costs ($29 million, the majority of which related to higher marketing expenses), and the shift in CDC income ($14 million). On an underlying basis, operating companies income increased 4.7%.

Oscar Mayer and Pizza: Reported volume in 2000 increased 5.2% from 1999. Volume grew in pizza, reflecting the continued success of rising crust pizza and new product introductions. Volume growth also reflected the introduction of new lunch combination varieties, the acquisition of Boca Burger, Inc. and gains in hot dogs and cold cuts. On an underlying basis, volume increased 5.9%, of which approximately 0.8 percentage points related to the acquisition of Boca Burger, Inc.

Reported operating revenues increased $263 million (8.2%) over 1999, due primarily to higher volume/mix ($168 million), higher pricing ($82 million) and the acquisition of Boca Burger, Inc. ($35 million), partially offset by the shift in CDC revenues ($24 million).

Reported operating companies income increased $62 million (13.8%) over 1999, due primarily to higher volume/mix ($78 million), higher margins ($43 million) and the 1999 separation charge ($38 million), partially offset by higher marketing, administration and research costs ($86 million, the majority of which related to higher marketing expenses) and the shift in CDC income ($8 million). On an underlying basis, operating companies income increased 6.6%.

Kraft Foods International

(in millions)

Year Ended December 31,	2001	2000	1999
Reported volume (in pounds):			
Europe, Middle East and Africa	2,826	2,829	2,816
Latin America and Asia Pacific	2,057	803	764
Total reported volume (in pounds)	4,883	3,632	3,580
Volume of businesses sold:			
Europe, Middle East and Africa	(1)	(40)	(93)
Latin America and Asia Pacific	(17)	(37)	(70)
Estimated impact of century date change:			
Europe, Middle East and Africa		7	(7)
Latin America and Asia Pacific		7	(7)
Underlying volume (in pounds)	4,865	3,569	3,403
Nabisco volume:			
Europe, Middle East and Africa		44	
Latin America and Asia Pacific		1,089	
Pro forma volume (in pounds)	4,865	4,702	
Reported operating revenues:			
Europe, Middle East and Africa	$ 6,339	$ 6,824	$ 7,676

Latin America and Asia Pacific	2,430	1,247	1,224
Total reported operating revenues	8,769	8,071	8,900
Operating revenues of businesses sold:			
Europe, Middle East and Africa		(131)	(294)
Latin America and Asia Pacific	(4)	(21)	(54)
Estimated impact of century date change:			
Europe, Middle East and Africa		14	(14)
Latin America and Asia Pacific		12	(12)
Underlying operating revenues	8,765	7,945	$ 8,526
Nabisco operating revenues:			
Europe, Middle East and Africa		47	
Latin America and Asia Pacific		1,140	
Pro forma operating revenues	$ 8,765	$ 9,132	

Kraft Foods International (continued)

(in millions)

Year Ended December 31,	2001	2000	1999
Reported operating companies income:			
Europe, Middle East and Africa	$ 861	$ 1,019	$ 895
Latin America and Asia Pacific	378	189	168
Total reported operating companies income	1,239	1,208	1,063
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		(32)	(52)
Latin America and Asia Pacific	(1)	(3)	(4)
Estimated impact of century date change:			
Europe, Middle East and Africa		8	(8)
Latin America and Asia Pacific		5	(5)
Underlying operating companies income	1,238	1,047	$ 994
Nabisco operating companies income:			
Europe, Middle East and Africa		1	
Latin America and Asia Pacific		93	
Pro forma operating companies income	$ 1,238	$ 1,141	

2001 compared with 2000

KFI's reported volume for 2001 increased 34.4% over 2000, due primarily to the acquisition of Nabisco. On a pro forma basis, volume for 2001 increased 3.5% over 2000. Excluding the 53rd week of shipments in 2000, volume increased 4.7%, benefiting from gains across most consumer sectors and driven by continued growth in the developing markets of Central and Eastern Europe, Latin America and Asia Pacific.

During 2001, reported operating revenues increased $698 million (8.6%) over 2000, due primarily to the acquisition of Nabisco ($1.2 billion) and the shift in CDC revenues ($26 million), partially offset by unfavorable currency movements ($460 million) and the revenues of divested businesses ($148 million). On a pro forma basis, operating revenues decreased 4.0%, primarily reflecting unfavorable currency movements.

Reported operating companies income for 2001 increased $31 million (2.6%) over 2000, due primarily to the acquisition of Nabisco ($128 million), lower marketing, administration and research costs ($119 million) and the shift in CDC income ($13 million), partially offset by the gain on the French Confectionery Sale in 2000 ($139 million), unfavorable currency movements ($51 million) and income of divested businesses ($34 million). On a pro forma basis, which does not include the French Confectionery Sale in 2000, operating companies income increased 8.5%.

The following discusses operating results within each of KFI's reportable segments.

Europe, Middle East and Africa: Reported and pro forma volume for 2001 decreased slightly from 2000, due primarily to the 53rd week of shipments in 2000. Excluding the 53rd week of shipments in 2000, volume increased 1.3%, due primarily to volume gains in the developing markets of Central and Eastern Europe and growth in many Western European markets, partially offset by lower volume in Germany, reflecting increased price competition and trade inventory reductions, and lower canned meats volume in Italy. In beverages, volume increased in both coffee and refreshment beverages. Coffee volume grew in many markets, driven by new product introductions and recent acquisitions in Romania, Morocco and Bulgaria. In Germany, coffee volume increased despite trade inventory reductions. Refreshment beverages volume increased, driven by higher sales to the Middle East. Snacks volume increased, driven by confectionery and salty snacks, particularly in Central and Eastern Europe. Snacks volume in Germany was lower due to increased price competition and trade inventory reductions. Cheese volume increased due primarily to Philadelphia cream cheese growth across the region, partially offset by lower volume in Germany. In convenient meals and grocery, volume declined as lower canned meats volume in Italy and a decline in grocery volume in Germany were partially offset by higher shipments of lunch combinations and pourable dressings in the United Kingdom.

Reported operating revenues for 2001 decreased $485 million (7.1%) from 2000, due primarily to unfavorable currency movements ($251 million), revenues from divested businesses ($131 million), lower pricing ($123 million, primarily commodity-driven coffee price decreases) and lower volume/mix ($69 million), partially offset by the acquisition of Nabisco ($46 million), the 2001 acquisitions of coffee businesses in Romania, Morocco and Bulgaria ($29 million) and the shift in CDC revenues ($14 million). On a pro forma basis, operating revenues decreased 6.1%, reflecting unfavorable currency movements and commodity-related coffee price decreases.

Reported operating companies income for 2001 decreased $158 million (15.5%) from 2000, due primarily to the gain on the French Confectionery Sale in 2000 ($139 million), unfavorable currency movements ($19 million), income from divested businesses ($32 million), lower volume/mix ($12 million) and unfavorable margins ($16 million), partially offset by lower marketing, administration and research costs ($50 million) and the shift in CDC income. On a pro forma basis, operating companies income increased 0.5%.

Latin America and Asia Pacific: Reported volume for 2001 increased more than 100% from 2000, due primarily to the acquisition of Nabisco. On a pro forma basis, volume for 2001 increased 9.6% over 2000. Excluding the 53rd week of shipments in 2000, volume increased 9.9%, due to gains across most consumer sectors. Beverages volume increased, due primarily to growth in refreshment beverages in Latin America and Asia Pacific, and coffee in Asia Pacific. Cheese volume increased due primarily to cream cheese and process cheese. Grocery volume was higher, due primarily to new product introductions. Snacks volume increased, driven primarily by new biscuit product introductions

and geographic expansion, partially offset by lower volume in Argentina, due to economic weakness. Continued erosion of the economic climate in Argentina may negatively affect volume and income growth in the Latin America and Asia Pacific segment during 2002.

During 2001, reported operating revenues increased $1,183 million (94.9%) over 2000, due primarily to the acquisition of Nabisco, partially offset by unfavorable currency movements. On a pro forma basis, operating revenues increased 2.0%.

Reported operating companies income for 2001 increased $189 million (100.0%) over 2000, due primarily to the acquisition of Nabisco ($128 million), lower marketing, administration and research costs ($69 million), higher margins ($14 million) and the shift in CDC income, partially offset by unfavorable currency movements ($32 million). On a pro forma basis, operating companies income increased 32.7%, due primarily to productivity savings and Nabisco synergies.

2000 compared with 1999

KFI's reported volume for 2000 increased 1.5% over 1999, due primarily to volume increases in both the Europe, Middle East & Africa and Latin America & Asia Pacific segments. On an underlying basis, volume increased 4.9%, including the impact of the 53rd week of shipments in 2000.

Reported operating revenues for 2000 decreased $829 million (9.3%) from 1999, due primarily to unfavorable currency movements ($887 million), the shift in CDC revenues ($52 million), lower pricing ($30 million, due primarily to commodity-driven coffee price decreases) and the impact of divestitures ($196 million), partially offset by higher volume/mix ($291 million). On an underlying basis, operating revenues decreased 6.8%.

Reported operating companies income for 2000 increased by $145 million (13.6%) to $1.2 billion, due primarily to higher volume/mix ($147 million), the gain on the French Confectionery Sale ($139 million) and higher margins ($84 million, primarily relating to lower commodity costs), partially offset by unfavorable currency movements ($96 million), higher marketing, administration and research costs ($78 million), the shift in CDC income ($26 million) and the impact of divested businesses. On an underlying basis, operating companies income increased 5.3%.

The following discusses operating results within each of KFI's reportable segments.

Europe, Middle East and Africa: Reported volume for 2000 increased 0.5% over 1999, while underlying volume increased 2.9% over 1999, with growth in all product categories. In beverages, coffee volume benefited from 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 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 lunch combination 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.

Reported operating revenues decreased $852 million (11.1%) from 1999, due primarily to unfavorable currency movements ($830 million), lower pricing ($60 million, due primarily to commodity-driven coffee price decreases), the shift in CDC revenues ($28 million) and the impact of divestitures ($163 million), partially offset by higher volume/mix ($186 million). On an underlying basis, operating revenues decreased 9.0%.

Reported operating companies income increased $124 million (13.9%) over 1999, due primarily to the gain on the French Confectionery Sale ($139 million), higher volume/mix ($104 million) and higher margins ($70 million, due primarily to lower coffee commodity costs), partially offset by unfavorable currency movements ($97 million), higher marketing, administration and research costs ($58 million), the shift in CDC income ($16 million) and the impact of divestitures ($20 million). On an underlying basis, operating companies income increased 2.5%.

Latin America and Asia Pacific: Reported volume for 2000 increased 5.1% over 1999. On an underlying basis, volume in 2000 increased 12.5% 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 increased, benefiting from new flavors in Brazil, marketing programs in China and the Philippines, and expansion into Thailand. Snacks volume gains were driven by 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 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.

Reported operating revenues increased $23 million (1.9%) over 1999, due primarily to higher volume/mix ($105 million) and higher pricing ($30 million), partially offset by unfavorable currency movements ($57 million), the shift in CDC revenues ($24 million) and the impact of divestitures ($33 million). On an

underlying basis, operating revenues increased 6.9%.

Reported operating companies income increased $21 million (12.5%) over 1999, due primarily to higher volume/mix ($43 million) and higher pricing ($14 million), partially offset by higher marketing, administration and research costs ($20 million) and the shift in CDC income ($10 million). On an underlying basis, operating companies income increased 20.1%.

Financial Review

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $3.3 billion in 2001 and 2000, while $2.7 billion was provided by operating activities in 1999. The increase in 2000 operating cash flows over 1999 primarily reflected increased net earnings of $248 million and reduced levels of receivables and inventories of $318 million, which included the shift in working capital attributable to the CDC.

Net Cash Used in Investing Activities

During 2001, 2000 and 1999, net cash used in investing activities was $1.2 billion, $16.1 billion and $669 million, respectively. The increase in 2000 primarily reflects the cash used for the acquisition of Nabisco.

Capital expenditures, which were funded by operating activities, were $1.1 billion, $906 million and $860 million in 2001, 2000 and 1999, respectively. The capital expenditures were primarily to modernize the manufacturing facilities, lower cost of production and expand production capacity for growing product lines. The additional expenditures in 2001 were due primarily to the acquisition of Nabisco. Capital expenditures are expected to be approximately $1.2 billion in 2002 and are expected to be funded from operations.

During 2001, the Company purchased coffee businesses in Romania, Morocco and Bulgaria and also acquired confectionery businesses in Russia and Poland. The total cost of these and other smaller acquisitions was $194 million.

During 2000, the Company purchased Boca Burger, Inc. and Balance Bar Co. The total cost of these and other smaller acquisitions was $365 million.

Net Cash Used in Financing Activities

During 2001, net cash of $2.1 billion was used in financing activities, compared with $13.0 billion provided by financing activities during 2000. During 2001, financing activities included net debt repayments of $2.0 billion, excluding debt repayments made with IPO proceeds. The net proceeds from the IPO were used to repay debt to Philip Morris and, as a result, had no impact on financing cash flows. In 2000, the Company's financing activities provided cash, as additional borrowings to finance the acquisition of Nabisco exceeded the cash used to pay dividends. During 1999, net cash of $2.0 billion was used in financing activities.

Debt and Liquidity

The SEC recently issued Financial Reporting Release No. 61, which sets forth the views of the SEC regarding enhanced disclosures relating to liquidity and capital resources. The information provided below about the Company's debt, credit facilities, guarantees and future commitments is included here to facilitate a review of the Company's liquidity.

Debt: The Company's total debt, including intercompany accounts payable to Philip Morris, was $16.0 billion at December 31, 2001, and $25.8 billion at December 31, 2000. The decrease was due primarily to the repayment of $8.4 billion of long-term notes payable to Philip Morris with the net proceeds from the IPO.

During 2001, the Company refinanced $2.6 billion, representing the remaining portion of an $11.0 billion long-term note payable to Philip Morris, with the proceeds from short-term borrowings. In addition, the Company refinanced long-term, fixed-rate Swiss franc notes payable to Philip Morris with short-term Swiss franc borrowings from Philip Morris at variable interest rates.

During 2001, in anticipation of a public bond offering, the Company converted its $4.0 billion, 7.40% note payable to Philip Morris, originally maturing in December 2002, into a 3.56125% note payable to Philip Morris maturing in November 2001. On November 2, 2001, the Company completed a $4.0 billion public global bond offering at a weighted average interest rate of 5.48%, the net proceeds of which were used to repay the 3.56125% short-term note payable to Philip Morris.

As discussed in Notes 3, 7 and 8 to the consolidated financial statements, the Company's total debt of $16.0 billion at December 31, 2001 is due to be repaid as follows: in 2002, $4.9 billion; in 2003-2004, $0.5 billion; in 2005-2006, $2.0 billion; and thereafter, $8.6 billion. Debt obligations due to be repaid in 2002 will be satisfied with a combination of short-term borrowings, refinancing transactions in the debt markets and operating cash flows. The Company's debt-to-equity ratio was 0.68 at December 31, 2001 and 1.84 at December 31, 2000.

Credit Ratings: The Company's credit ratings by Moody's at December 31, 2001 were "P-1" in the commercial paper market and "A2" for long-term debt obligations. The Company's credit ratings by Standard & Poor's at December 31, 2001 were "A-1" in the commercial paper market, and "A-" for long-term debt obligations. The Company's credit ratings by Fitch Rating Services at December 31, 2001 were "F-1" in the commercial paper market and "A" for long-term debt obligations. Changes in the Company's credit ratings, although none are currently anticipated, could result in corresponding changes in the Company's borrowing costs. However, none of the Company's debt agreements require accelerated repayment in the event of a decrease in credit ratings.

Credit Facilities: In July 2001, reflecting the Company's reduced requirements for credit facilities following the IPO, Philip Morris terminated an existing $9.0 billion 364-day revolving credit agreement that could have been transferred to the Company. Upon

termination of this facility, the Company entered into agreements for a $2.0 billion 5-year revolving credit facility expiring in July 2006 and a $4.0 billion 364-day revolving credit facility expiring in July 2002. Including these revolving credit facilities, the Company's total credit facilities were $6.8 billion at December 31, 2001, of which approximately $6.5 billion were undrawn at December 31, 2001. Certain of these credit facilities are used to support commercial paper borrowings, the proceeds of which will be used for general corporate purposes. A portion of the facilities is used to meet the short-term working capital needs of the Company's international businesses. Certain of the credit facilities require the maintenance of a minimum net worth, as defined, of $18.2 billion, which the Company exceeded at December 31, 2001. The Company does not currently anticipate any difficulty in continuing to exceed this covenant requirement. The foregoing revolving credit facilities do not include any other covenants that could require an acceleration of maturity or the posting of collateral. The five-year revolving credit facility enables the Company to reclassify short-term debt on a long-term basis. At December 31, 2001, $2.0 billion of commercial paper borrowings that the Company intends to refinance were reclassified as long-term debt. The Company expects to continue to refinance long-term and short-term debt from time to time. The nature and amount of the Company's long-term and short-term debt and the proportionate amount of each can be expected to vary as a result of future business requirements, market conditions and other factors.

Guarantees and Commitments: At December 31, 2001, the Company was contingently liable for guarantees and commitments of $41 million. These include surety bonds related to dairy commodity purchases and guarantees related to letters of credit. Guarantees do not have, and are not expected to have, a significant impact on the Company's liquidity. The Company's consolidated rent expense for 2001 was $372 million. Accordingly, the Company does not consider its lease commitments to be a significant determinant of the Company's liquidity.

The Company believes that its cash from operations, existing credit facilities and access to global capital markets will provide sufficient liquidity to meet its working capital needs, planned capital expenditures and payment of its anticipated quarterly dividends.

Dividends

Dividends paid in 2001 and 2000 were $225 million and $1.0 billion, respectively. The dividends paid in 2000 reflect dividends to Philip Morris. During 2001, the Company declared two regular quarterly dividends of $0.13 per share on its Class A and Class B common stock. The present annualized dividend rate is $0.52 per common share. The declaration of dividends is subject to the discretion of the Company's board of directors and will depend on various factors, including the Company's net earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by the Company's board of directors.

Market Risk

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, which primarily relate to forecasted transactions and interest rate exposures. Derivative financial instruments are used by the Company, principally to reduce exposures to market risks resulting from fluctuations in foreign exchange rates, commodity prices and interest rates by creating offsetting exposures. The Company is not a party to leveraged derivatives. 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. 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 use derivative financial instruments for speculative purposes.

Substantially all of the Company's derivative financial instruments are effective as hedges under the new accounting standard. Accordingly, the Company recorded deferred losses of $18 million in accumulated other comprehensive losses. This reflects the initial adoption of the accounting pronouncement and a decrease in the fair value of derivatives during the year of $33 million, partially offset by deferred losses transferred to earnings of $15 million. The fair value of all derivative financial instruments has been calculated based on active market quotes.

Foreign Exchange Rates: The Company uses forward foreign exchange contracts and foreign currency options to mitigate its exposure to changes in foreign currency exchange rates from third-party and intercompany forecasted transactions. The primary currencies to which the Company is exposed include the euro and Canadian dollar. At December 31, 2001 and 2000, the Company had option and forward foreign exchange contracts with aggregate notional amounts of $431 million and $237 million, respectively, for the purchase or sale of foreign currencies.

Commodities: The Company is exposed to price risk related to forecasted purchases of certain commodities used as raw materials by the Company's businesses. Accordingly, the Company uses commodity forward contracts, as cash flow hedges, primarily for coffee, cocoa, milk, cheese and wheat. Commodity futures and options are also used to hedge the price of certain commodities, including milk, coffee, cocoa, wheat, corn, sugar and soybean. At December 31, 2001 and 2000, the Company had net long commodity positions of $589 million and $617 million, respectively.

Interest Rates: The Company uses interest rate swaps to hedge the fair value of an insignificant portion of its long-term debt. The differential to be paid or received is accrued and recognized as interest expense. 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. At December 31, 2001, the aggregate notional principal amount of those agreements, which converted fixed-rate debt to variable-rate debt, was $102 million. Aggregate maturities at December 31, 2001 were $29 million in 2003 and $73 million in 2004. During the year ended December 31, 2001, there was no ineffectiveness relating to these fair value hedges.

Value at Risk: The Company uses a value at risk ("VAR") computation to estimate the potential one-day loss in the fair value of its interest rate-sensitive financial instruments and to estimate the potential one-day loss in pre-tax earnings of its foreign currency and commodity price-sensitive derivative financial instruments. The VAR computation includes the Company's 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, were excluded from the computation.

The VAR estimates were made assuming normal market conditions, using a 95% confidence interval. The Company 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 VAR amounts at December 31, 2001 and 2000, and over each of the four preceding quarters for the calculation of average VAR 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 were valued accordingly in the VAR computation.

The estimated potential one-day loss in fair value of the Company's interest rate-sensitive instruments, primarily debt, under normal market conditions and the estimated potential one-day loss in pre-tax earnings from foreign currency and commodity instruments under normal market conditions, as calculated in the VAR model, were as follows:

	Pre-Tax Earnings Impact			
(in millions)	At 12/31/01	Average	High	Low
Instruments sensitive to:				
Foreign currency rates	$2	$6	$13	$2
Commodity prices	5	7	11	5

	Fair Value Impact			
(in millions)	At 12/31/01	Average	High	Low
Instruments sensitive to:				
Interest rates	$122	$79	$122	$56

	Pre-Tax Earnings Impact			
(in millions)	At 12/31/00	Average	High	Low
Instruments sensitive to:				
Foreign currency rates	$ 20	$20	$ 24	$15
Commodity prices	9	8	9	7

	Fair Value Impact			
(in millions)	At 12/31/00	Average	High	Low
Instruments sensitive to:				
Interest rates	$166	$83	$166	$39

This VAR 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 the Company, nor does it consider the effect of favorable changes in market rates. The Company cannot predict actual future movements in such market rates and does not present these VAR 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 its future results of operations or financial position.

New Accounting Standards

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related amendment, SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as "SFAS No. 133"). These standards require that all derivative financial instruments be recorded on the consolidated 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, 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 are included in earnings in the periods in which earnings are affected by the hedged item. As of January 1, 2001, 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 Emerging Issues Task Force ("EITF") issued EITF Issue No. 00-14, "Accounting for Certain Sales Incentives" and EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." As a result, certain items previously included in marketing, administration and research costs on the consolidated statement of earnings will either be recorded as a reduction of operating revenues or as an increase in cost of sales. These EITF Issues will be effective in the first quarter of 2002. The Company estimates that adoption of EITF Issues No. 00-14 and No. 00-25 will result in a reduction of operating revenues in 2001, 2000 and 1999 of approximately $4.6 billion, $3.6 billion and $3.4 billion, respectively. Marketing, administration and research costs will decline in 2001, 2000 and 1999 by approximately $4.7 billion, $3.7 billion and $3.4 billion, respectively, while cost of sales will increase by an insignificant amount. The adoption of these EITF Issues will have no impact on net earnings or basic and diluted EPS.

During 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." Effective January 1, 2002, the Company will no longer be required to amortize indefinite life goodwill and intangible assets as a charge to earnings. In addition, the Company will be required to conduct an annual review of goodwill and other intangible assets for potential impairment. The Company estimates that net earnings and diluted earnings per share would have been approximately $2,839 million and $1.76, respectively, for the year ended December 31, 2001; $2,531 million and $1.74, respectively, for the year ended December 31, 2000; and $2,287 million and $1.57, respectively, for the year ended December 31, 1999, had the provisions of the new standards been applied in those years. The Company does not currently anticipate having to record a charge to earnings for the potential impairment of goodwill or other intangible assets as a result of adoption of these new standards.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets, expands the scope of a discontinued operation to include a component of an entity and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. SFAS No. 144 is effective for the Company on January 1, 2002. The Company does not expect the adoption of SFAS No. 144 to have a material impact on the Company's 2002 financial statements.

Contingencies

See Note 17 to the consolidated financial statements for a discussion of contingencies.

Forward-Looking and Cautionary Statements

The Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to shareholders. One can identify these forward-looking statements by use of words such as "strategy," "expects," "plans," "believes," "will," "estimates," "intends," "projects," "goals," "targets" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying important factors that could cause actual results and outcomes to differ materially from those contained in any forward-looking statement made by or on behalf of the Company; any such statement is qualified by reference to the following cautionary statements.

Each of the Company's segments is subject to intense competition, changes in consumer preferences, the effects of changing prices for its raw materials and local economic conditions. Their results are dependent upon their continued ability to promote brand equity successfully, to anticipate and respond to new consumer trends, to develop new products and markets and to broaden brand portfolios, in order to compete effectively with lower priced products in a consolidating environment at the retail and manufacturing levels, and to improve productivity. The Company's results are also dependent on its ability to successfully integrate and derive cost savings from the integration of Nabisco's operations with the Company. In addition, the Company is subject to the effects of foreign economies, currency movements and fluctuations in levels of customer inventories. The food industry continues to be subject to the possibility that consumers could lose confidence in the safety and quality of certain food products. Developments in any of these areas, which are more fully described above and which descriptions are incorporated into this section by reference, could cause the Company's results to differ materially from results that have been or may be projected by or on behalf of the Company. The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Selected Financial Data -- Five-Year Review

(in millions of dollars, except per share data)

	2001	2000	1999	1998	1997
Summary of Operations:					
Operating revenues	$ 33,875	$ 26,532	$26,797	$27,311	$27,690
Cost of sales	17,531	13,917	14,573	15,544	15,978
Operating income	4,884	4,012	3,579	3,535	3,559
Interest and other debt expense, net	1,437	597	539	536	476
Earnings before income taxes	3,447	3,415	3,040	2,999	3,083
Pre-tax profit margin	10.2%	12.9%	11.3%	11.0%	11.1%
Provision for income taxes	1,565	1,414	1,287	1,367	1,291
Net earnings	1,882	2,001	1,753	1,632	1,792
Basic EPS	1.17	1.38	1.20	1.12	1.23
Diluted EPS	1.17	1.38	1.20	1.12	1.23
Dividends declared per share	0.26	--	--	--	--
Weighted average shares (millions)-- Basic	1,610	1,455	1,455	1,455	1,455
Weighted average shares (millions)-- Diluted	1,610	1,455	1,455	1,455	1,455
Capital expenditures	1,101	906	860	841	737
Depreciation	680	499	491	494	512
Property, plant and equipment, net	9,109	9,405	6,526	6,494	6,198
Inventories	3,026	3,041	2,563	2,570	2,643
Total assets	55,798	52,071	30,336	31,391	31,257
Total long-term debt	8,134	2,695	433	483	531
Notes payable to parent and affiliates	5,000	21,407	6,602	6,234	5,000
Total debt	16,007	25,826	7,828	7,168	6,393
Total deferred income taxes	4,565	942	789	707	340
Shareholders' equity	23,478	14,048	13,461	15,134	15,761
Common dividends declared as a % of Basic EPS	22.2%	--	--	--	--
Common dividends declared as a % of Diluted EPS	22.2%	--	--	--	--
Book value per common share outstanding	13.53	9.65	9.25	10.40	10.83
Market price per Class A common share-- high/low	35.57-29.50	--	--	--	--
Closing price of Class A common share at year end	34.03	--	--	--	--
Price/earnings ratio at year end-- Basic	29	--	--	--	--
Price/earnings ratio at year end-- Diluted	29	--	--	--	--
Number of common shares outstanding at year end (millions)	1,735	1,455	1,455	1,455	1,455
Number of employees	114,000	117,000	71,000	78,000	82,000

Kraft Foods Inc.

Consolidated Balance Sheets

(in millions of dollars)

At December 31,	2001	2000
Assets		
Cash and cash equivalents	$ 162	$ 191
Receivables (less allowances of $151 and $152)	3,131	3,231
Inventories:		
Raw materials	1,281	1,175
Finished product	1,745	1,866
	3,026	3,041
Deferred income taxes	466	504
Other current assets	221	185
Total current assets	7,006	7,152
Property, plant and equipment, at cost:		
Land and land improvements	387	419
Buildings and building equipment	2,915	2,949
Machinery and equipment	9,264	8,858
Construction in progress	706	816
	13,272	13,042
Less accumulated depreciation	4,163	3,637
	9,109	9,405
Goodwill and other intangible assets (less accumulated amortization of $7,099 and $6,100)	35,957	31,584
Prepaid pension assets	2,675	2,623
Other assets	1,051	1,307
Total Assets	$ 55,798	$ 52,071
Liabilities		
Short-term borrowings	$ 681	$ 146
Current portion of long-term debt	540	713
Due to parent and affiliates	1,652	865
Accounts payable	1,897	1,971
Accrued liabilities:		
Marketing	1,398	1,601
Employment costs	658	625
Other	1,821	1,411
Income taxes	228	258
Total current liabilities	8,875	7,590
Long-term debt	8,134	2,695
Deferred income taxes	5,031	1,446
Accrued postretirement health care costs	1,850	1,867
Notes payable to parent and affiliates	5,000	21,407
Other liabilities	3,430	3,018
Total liabilities	32,320	38,023
Contingencies (Note 17)		
Shareholders' Equity		
Class A common stock, no par value (555,000,000 and 275,000,000 shares issued and outstanding in 2001 and 2000)		
Class B common stock, no par value (1,180,000,000 shares issued and outstanding)		
Additional paid-in capital	23,655	15,230
Earnings reinvested in the business	2,391	992
Accumulated other comprehensive losses (primarily currency translation adjustments)	(2,568)	(2,174)
Total shareholders' equity	23,478	14,048
Total Liabilities and Shareholders' Equity	$ 55,798	$ 52,071

See notes to consolidated financial statements.

Kraft Foods Inc.

Consolidated Statements of Earnings

(in millions of dollars, except per share data)

For the years ended December 31,	2001	2000	1999
Operating revenues	$33,875	$26,532	$26,797
Cost of sales	17,531	13,917	14,573
Gross profit	16,344	12,615	12,224
Marketing, administration and research costs	10,498	8,068	8,106
Amortization of goodwill and other intangible assets	962	535	539
Operating income	4,884	4,012	3,579
Interest and other debt expense, net	1,437	597	539
Earnings before income taxes	3,447	3,415	3,040
Provision for income taxes	1,565	1,414	1,287
Net earnings	$ 1,882	$ 2,001	$ 1,753
Per share data:			
Basic earnings per share	$ 1.17	$ 1.38	$ 1.20
Diluted earnings per share	$ 1.17	$ 1.38	$ 1.20

See notes to consolidated financial statements.

Kraft Foods Inc.

Consolidated Statements of Cash Flows

(in millions of dollars)

For the years ended December 31,	2001	2000	1999
Cash Provided By (Used In) Operating Activities			
Net earnings	$ 1,882	$ 2,001	$ 1,753
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	1,642	1,034	1,030
Deferred income tax provision	414	245	151
Gains on sales of businesses	(8)	(172)	(62)
Loss on sale of a North American food factory and integration costs	82		
Cash effects of changes, net of the effects from acquired and divested companies:			
Receivables, net	23	204	156
Inventories	(107)	175	(95)
Accounts payable	(73)	13	(18)
Income taxes	74	35	127
Other working capital items	(407)	(195)	(137)
Increase in pension assets and postretirement liabilities, net	(245)	(215)	(205)
Increase (decrease) in amount due to parent and affiliates	138	104	(21)
Other	(87)	25	14
Net cash provided by operating activities	3,328	3,254	2,693
Cash Provided By (Used In) Investing Activities			
Capital expenditures	(1,101)	(906)	(860)
Purchase of Nabisco, net of acquired cash		(15,159)	
Purchases of other businesses, net of acquired cash	(194)	(365)	(14)
Proceeds from sales of businesses	21	300	175
Other	52	(8)	30
Net cash used in investing activities	(1,222)	(16,138)	(669)
Cash Provided By (Used In) Financing Activities			
Net issuance (repayment) of short-term borrowings	2,505	(816)	(22)
Long-term debt proceeds	4,077	87	78
Long-term debt repaid	(705)	(112)	(111)
Net proceeds from sale of Class A common stock	8,425		
Proceeds from issuance of notes payable to parent and affiliates		15,000	768
Repayment of notes payable to parent and affiliates	(16,350)	(124)	(178)
Increase in amounts due to parent and affiliates	142	143	450
Dividends paid	(225)	(1,009)	(3,016)
Other		(187)	
Net cash (used in) provided by financing activities	(2,131)	12,982	(2,031)
Effect of exchange rate changes on cash and cash equivalents	(4)	(2)	(10)
Cash and cash equivalents:			
(Decrease) increase	(29)	96	(17)
Balance at beginning of year	191	95	112
Balance at end of year	$ 162	$ 191	$ 95
Cash paid:			
Interest	$ 1,433	$ 605	$ 533
Income taxes	$ 1,058	$ 1,051	$ 1,022

See notes to consolidated financial statements.

Kraft Foods Inc.

Consolidated Statements of Shareholders' Equity

(in millions of dollars, except per share data)

	Class A and B Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses			Total Shareholders' Equity
				Currency Translation Adjustments	Other	Total	
Balances, January 1, 1999	$ --	$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
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
Dividends declared			(1,009)				(1,009)
Balances, December 31, 2000	--	15,230	992	(2,138)	(36)	(2,174)	14,048
Comprehensive earnings:							
Net earnings			1,882				1,882
Other comprehensive losses, net of income taxes:							
Currency translation adjustments				(298)		(298)	(298)
Additional minimum pension liability					(78)	(78)	(78)
Change in fair value of derivatives accounted for as hedges					(18)	(18)	(18)
Total other comprehensive losses							(394)
Total comprehensive earnings							1,488
Sale of Class A common stock to public		8,425					8,425
Dividends declared ($0.26 per share)			(483)				(483)
Balances, December 31, 2001	$ --	$23,655	$ 2,391	$(2,436)	$(132)	$(2,568)	$23,478

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1. Background and Basis of Presentation:

Background: Kraft Foods Inc. ("Kraft") was incorporated in 2000 in the Commonwealth of Virginia. Following Kraft's formation, Philip Morris Companies Inc. ("Philip Morris") transferred to Kraft 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. Kraft, together with its subsidiaries (collectively referred to as the "Company"), 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.

Prior to June 13, 2001, the Company was a wholly-owned subsidiary of Philip Morris. On June 13, 2001, the Company completed an initial public offering ("IPO") of 280,000,000 shares of its Class A common stock at a price of $31.00 per share. The IPO proceeds, net of the underwriting discount and expenses, of $8.4 billion were used to retire a portion of an $11.0 billion long-term note payable to Philip Morris incurred in connection with the acquisition of Nabisco. After the IPO, Philip Morris owns approximately 83.9% of the outstanding shares of the Company's capital stock through its ownership of 49.5% of the Company's Class A common stock and 100% of the Company's Class B common stock. The Company's Class A common stock has one vote per share while the Company's Class B common stock has ten votes per share. Therefore, Philip Morris holds 97.7% of the combined voting power of the Company's outstanding common stock.

Basis of presentation: The consolidated financial statements include the Company and its subsidiaries. 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 revenues 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 consolidated statement of earnings for the year ended December 31, 2000.

Certain prior years' amounts have been reclassified to conform with the current year's presentation.

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 ("LIFO") 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, including intangible 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.

In October 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets, expands the scope of a discontinued operation to include a component of an entity and eliminates the current exemption to consolidation when control over a subsidiary is likely to be temporary. SFAS No. 144 is effective for the Company on January 1, 2002. The Company does not expect the adoption of SFAS No. 144 to have a material impact on the Company's 2002 financial statements.

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.

During 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." Effective January 1, 2002, the Company will no longer be required to amortize indefinite life goodwill and intangible assets as a charge to earnings. In addition, the Company will be required to conduct an annual review of goodwill and other intangible assets for potential impairment. The Company estimates that net earnings and diluted earnings per share ("EPS") would have been approximately $2,839 million and $1.76, respectively, for the year ended December 31, 2001; $2,531 million and $1.74, respectively, for the year ended December 31, 2000; and $2,287 million and $1.57, respectively, for the year ended December 31, 1999, had the provisions of the new standards been applied in those years. The Company does not currently anticipate having to record a charge to earnings for the potential impairment of goodwill or other intangible assets as a result of adoption of these new standards.

Marketing costs: The Company promotes its products with significant marketing activities, including advertising, consumer incentives and trade promotions. Advertising costs are expensed as incurred. Consumer incentive and trade promotion activities are recorded as expense based on amounts estimated as being due to customers and consumers at the end of a period, based principally on the Company's historical utilization and redemption rates.

Revenue recognition: The Company recognizes operating revenue upon shipment of goods when title and risk of loss pass to customers. The Company classifies shipping and handling costs as part of cost of sales.

The Emerging Issues Task Force ("EITF") issued EITF Issue No. 00-14, "Accounting for Certain Sales Incentives" and EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products." As a result, certain items previously included in marketing, administration and research costs on the consolidated statement of earnings will either be recorded as a reduction of operating revenues or as an increase in cost of sales. These EITF Issues will be effective in the first quarter of 2002. The Company estimates that adoption of EITF Issues No. 00-14 and No. 00-25 will result in a reduction of operating revenues in 2001, 2000 and 1999 of approximately $4.6 billion, $3.6 billion and $3.4 billion, respectively. Marketing, administration and research costs will decline in 2001, 2000 and 1999 by approximately $4.7 billion, $3.7 billion and $3.4 billion, respectively, while cost of sales will increase by an insignificant amount. The adoption of these EITF Issues will have no impact on net earnings or basic and diluted EPS.

Hedging instruments: Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related amendment, SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as "SFAS No. 133"). These standards require that all derivative financial instruments be recorded on the consolidated 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, 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 are included in earnings in the periods in which earnings are affected by the hedged item. As of January 1, 2001, 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).

Stock-based compensation: The Company accounts for employee stock compensation 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 provisions for income taxes included in the consolidated statements of earnings for the years ended December 31, 2001, 2000 and 1999 were lower than provisions calculated on a separate return basis by $185 million, $139 million and $107 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. 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 shareholders' 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 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 consolidated 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. In 2001, the Company entered into a formal agreement with Philip Morris providing for a continuation of these services, the cost of which increased $91 million as Philip Morris provided information technology and financial services, all of which were previously performed by the Company at approximately the same cost. Billings for these services, which were based on the cost to Philip Morris to provide such services, were $339 million, $248 million and $165 million for the years ended December 31, 2001, 2000 and 1999, respectively. These costs were paid to Philip Morris monthly. 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, and that they reflect all services provided. The effects of these transactions are included in operating cash flows in the Company's consolidated statements of cash flows.

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 Company also has long-term notes payable to its parent, Philip Morris, and its affiliates as follows:

(in millions)		
At December 31,	2001	2000
Notes payable in 2009, interest at 7.00%	$ 5,000	$ 5,000
Notes payable in 2002, interest at 7.75%		11,000
Notes payable in 2002, interest at 7.40%		4,000
Swiss franc notes payable in 2008, interest at 4.58%		715
Swiss franc notes payable in 2006, interest at 3.58%		692
	$ 5,000	$21,407

The two notes maturing in 2002 were related to the financing for the acquisition of Nabisco and were at market interest rates available to Philip Morris for debt with matching maturities.

During 2001, the Company used the IPO proceeds, net of the underwriting discount and expenses, of $8.4 billion to retire a portion of the $11.0 billion long-term note payable to Philip Morris. The remainder of this note was repaid with the proceeds from commercial paper borrowings. The Company repaid the $4.0 billion note primarily with the net proceeds from a $4.0 billion public global bond offering. The Company also 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. The short-term Swiss franc borrowings are included in due to parent and affiliates on the Company's consolidated balance sheet as of December 31, 2001.

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, 2001 and 2000 were $5,325 million and $21,357 million, respectively. The fair values of the Company's current amounts due to parent and affiliates approximate carrying amounts.

Note 4. Divestitures:

During 2001, the Company sold several small food businesses. The aggregate proceeds received in these transactions were $21 million, on which the Company recorded a pre-tax gain of $8 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.

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.

The operating results of the businesses sold were not material to the Company's consolidated 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 consolidated 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 was consolidated with the Company as of December 31, 2000, and beginning January 1, 2001, Nabisco's earnings have been included in the consolidated operating results of the Company; however, Nabisco's earnings from December 11, 2000 to December 31, 2000 were not included in the consolidated operating results of the Company since such amounts were insignificant. The Company's interest cost associated with acquiring Nabisco has been included in interest and other debt expense, net, on the Company's consolidated statements of earnings for the years ended December 31, 2001 and 2000.

During 2001, the Company completed the allocation of excess purchase price relating to Nabisco. As a result, the Company recorded, among other things, the final valuations of property, plant and equipment and intangible assets, primarily trade names, amounts relating to the closure of Nabisco facilities and related deferred income taxes. The final allocation of excess purchase price at December 31, 2001 was as follows:

	(in millions)
Purchase price	$15,254
Historical value of tangible assets acquired and liabilities assumed	(1,271)
Excess of purchase price over assets acquired and liabilities assumed at the date of acquisition	16,525
Increases for allocation of purchase price:	
Property, plant and equipment	367
Other assets	347
Accrued postretirement health care costs	230
Pension liabilities	190
Debt	50
Legal, professional, lease and contract termination costs	129
Other liabilities, principally severance	602
Deferred income taxes	3,583
Goodwill and other intangible assets at December 31, 2001	$22,023

Goodwill and other intangible assets at December 31, 2001 include approximately $11.7 billion related to trade names. The Company also recorded deferred federal income taxes of $3.9 billion related to trade names.

The closure of a number of Nabisco domestic and international facilities resulted in severance and other exit costs of $379 million, which are included in the above adjustments for the allocation of purchase price. The closures will result in the elimination of approximately 7,500 employees and will require total cash payments of $373 million, of which approximately $74 million has been spent through December 31, 2001.

The integration of Nabisco into the operations of the Company will also result in the closure of several of the Company's existing facilities. The aggregate charges to the Company's consolidated statement of earnings to close or reconfigure its facilities and integrate Nabisco are estimated to be in the range of $200 million to $300 million. During 2001, the Company incurred pre-tax integration costs of $53 million for site reconfigurations and other consolidation programs in the United States. In October 2001, the Company announced that it was offering a voluntary retirement program to certain salaried employees in the United States. The program is expected to eliminate approximately 750 employees and will result in an estimated pre-tax charge of approximately $140 million upon final employee acceptance in the first quarter of 2002.

Assuming the acquisition of Nabisco occurred at the beginning of 2000 and 1999, pro forma operating revenues would have been approximately $34 billion in each year; pro forma net earnings would have been $1.4 billion in 2000 and $1.1 billion in 1999; while basic and diluted EPS would have been $0.96 in 2000 and $0.77 in 1999. These pro forma results, which are unaudited, do not give effect to any synergies expected to result from the merger of Nabisco's operations with those of the Company, nor do they give effect to the reduction of interest expense from the repayment of borrowings with the proceeds from the IPO. The pro forma results also do not reflect the effects of SFAS No. 141 and 142 on the amortization of goodwill or other intangible assets, or the EITF Issues concerning the classification of certain expenses on the consolidated statements of earnings. The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been consummated and the IPO completed, at the beginning of each year, nor are they necessarily indicative of future consolidated operating results.

Other acquisitions: During 2001, the Company purchased coffee businesses in Romania, Morocco and Bulgaria and also acquired confectionery businesses in Russia and Poland. The total cost of these and other smaller acquisitions was $194 million.

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 and other smaller acquisitions was $365 million.

During 1999, the Company purchased several small North American and international food businesses for $14 million.

The effects of these acquisitions were not material to the Company's consolidated financial position or results of operations in any of the periods presented.

Note 6. Inventories:

The cost of approximately 54% and 56% of inventories in 2001 and 2000, respectively, was determined using the LIFO method. The stated LIFO amounts of inventories were approximately $150 million and $171 million higher than the current cost of inventories at December 31, 2001 and 2000, respectively.

Note 7. Short-Term Borrowings and Borrowing Arrangements:

At December 31, 2001, the Company had short-term borrowings of $2,681 million, consisting principally of commercial paper borrowings with an average year-end interest rate of 1.9%. Of this amount, the Company reclassified $2.0 billion of the commercial paper borrowings to long-term debt based upon its intent and ability to refinance these borrowings. At December 31, 2000, the Company had short-term borrowings of $146 million with an average year-end interest rate of 9.2%.

The fair values of the Company's short-term borrowings at December 31, 2001 and 2000, based upon current market interest rates, approximate the amounts disclosed above.

During 2001, the Company entered into agreements for a $2.0 billion 5-year revolving credit facility maturing in July 2006 and a $4.0 billion 364-day revolving credit facility maturing in July 2002. The Company intends to use these credit facilities to support commercial paper borrowings, the proceeds of which will be used for general corporate purposes. These facilities require the maintenance of a minimum net worth. None of these facilities were drawn at December 31, 2001. In addition, the Company maintains credit lines with a number of lending institutions amounting to approximately $768 million. The Company maintains these credit lines primarily to meet the short-term working capital needs of its international businesses.

Note 8. Long-Term Debt:

At December 31, 2001 and 2000, the Company's long-term debt consisted of the following:

(in millions)	2001	2000
Short-term borrowings, reclassified as long-term debt	$ 2,000	$ --
Notes, 4.63% to 7.55% (average effective rate 5.95%), due through 2035	6,229	2,751
Debentures, 7.00% to 8.50% (average effective rate 10.14%), $315 million face amount, due through 2017	258	401
Foreign currency obligations	136	173
Other	51	83
	8,674	3,408
Less current portion of long-term debt	(540)	(713)
	$ 8,134	$ 2,695

Aggregate maturities of long-term debt, excluding short-term borrowings reclassified as long-term debt, are as follows:

	(in millions)
2002	$ 540
2003	378
2004	85
2005	730
2006	1,252
2007-2011	2,593
Thereafter	1,153

Based on market quotes, where available, or interest rates 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, 2001 and 2000 was $8,679 million and $3,459 million, respectively.

Note 9. 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. At December 31, 2001, there were 555 million Class A common shares and 1.18 billion Class B common shares issued and outstanding, of which Philip Morris holds 275 million Class A common shares and all of the Class B common shares. 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. Therefore, Philip Morris holds 97.7% of the combined

voting power of the Company's outstanding common stock. At December 31, 2001, 75,949,530 shares of common stock were reserved for stock options and other stock awards.

Note 10. Stock Plans:

The Company's Board of Directors has adopted the 2001 Kraft Performance Incentive Plan (the "Plan"), which was established concurrently with the IPO. Under the Plan, the Company may grant stock options, stock appreciation rights, restricted stock, reload options 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 granted options for 21,029,777 shares of Class A common stock concurrent with the closing date of the IPO (June 13, 2001) at an exercise price equal to the IPO price of $31.00 per share. A portion of the shares granted (18,904,637) becomes exercisable on January 31, 2003, and will expire ten years from the date of the grant. The remainder of the shares granted (2,125,140) may become exercisable on a schedule based on total shareholder return for the Company's Class A common stock during the three years following the date of the grant, or will become exercisable five years from the date of the grant. These options will also expire ten years from the date

of the grant. Shares available to be granted under the Plan at December 31, 2001 were 54,688,173.

The Company's Board of Directors has also adopted the Kraft Director Plan. Under the Kraft Director Plan, awards are granted only to members of the Board of Directors who are not full-time employees of the Company or Philip Morris or their subsidiaries. Up to 500,000 shares of Class A common stock may be awarded under the Kraft Director Plan. During 2001, 8,945 stock options were granted under the Kraft Director Plan. Shares available to be granted under the Kraft Director Plan at December 31, 2001 were 491,055.

The Company 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.

Option activity was as follows for the year ended December 31, 2001:

	Shares Subject to Option	Weighted Average Exercise Price
Balance at January 1, 2001	--	$ --
Options granted	21,038,722	31.00
Options canceled	(268,420)	31.00
Balance at December 31, 2001	20,770,302	31.00

Prior to the IPO, certain employees of the Company participated in Philip Morris' stock compensation plans. Philip Morris does not currently intend to issue additional Philip Morris stock compensation to the Company's employees. Philip Morris accounts for its 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.

The Company's employees held options to purchase the following number of shares of Philip Morris' stock: 57,349,595 shares at an average exercise price of $34.66 per share at December 31, 2001; 56,977,329 shares at an average exercise price of $30.46 per share at December 31, 2000; and 39,911,082 shares at an average exercise price of $34.34 per share at December 31, 1999. Of these amounts, the following were exercisable at each date: 44,930,609 at an average exercise price of $31.95 per share at December 31, 2001; 38,444,963 at an average exercise price of $34.82 per share at December 31, 2000; and 31,071,681 at an average exercise price of $32.75 per share at December 31, 1999.

Had compensation cost for stock option awards under the Kraft plans and Philip Morris' plans been determined by using the fair value at the grant date, the Company's net earnings and EPS (basic and diluted) would have been $1,785 million and $1.11 for the year ended December 31, 2001; $1,947 million and $1.34 for the year ended December 31, 2000; and $1,713 million and $1.18 for the year ended December 31, 1999. 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
2001 Kraft	4.81%	5 years	29.70%	1.68%	$ 9.13
2001 Philip Morris	4.86	5	33.88	4.78	10.36
2000 Philip Morris	6.58	5	31.71	9.00	3.19
1999 Philip Morris	5.81	5	26.06	4.41	8.21

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 2001 and 2000, Philip Morris granted to certain of the Company's U.S. employees restricted stock of 279,120 shares and 2,113,570 shares, respectively. Philip Morris also issued to certain of the Company's non-U.S. employees rights to receive 31,310 and 683,790 equivalent shares during 2001 and 2000, respectively. During 1999, there were no restricted stock grants issued to the Company's employees. At December 31, 2001, restrictions on the stock, net of forfeitures, lapse as follows: 2002--2,638,410 shares; and 2003--92,000 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 2001, 2000 and 1999, the Company recorded compensation expense related to restricted stock awards of $39 million, $23 million and $3 million, respectively.

Note 11. Earnings Per Share:

Basic and diluted EPS were calculated using the following for the years ended

December 31, 2001, 2000 and 1999:

(in millions)

	2001	2000	1999
Net earnings	$1,882	$2,001	$1,753
Weighted average shares for basic and diluted EPS	1,610	1,455	1,455

During June 2001, the Company completed an IPO of 280,000,000 shares of its Class A common stock. Immediately following the IPO, the Company had 1,735,000,000 Class A and B common shares outstanding.

Note 12. 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, 2001, 2000 and 1999:

(in millions)

	2001	2000	1999
Pre-tax earnings:			
United States	$ 2,282	$ 2,188	$ 1,990
Outside United States	1,165	1,227	1,050
Total pre-tax earnings	$ 3,447	$ 3,415	$ 3,040
Provision for income taxes:			
United States federal:			
Current	$ 594	$ 572	$ 543
Deferred	299	218	164
	893	790	707
State and local	112	120	144
Total United States	1,005	910	851
Outside United States:			
Current	445	477	449
Deferred	115	27	(13)
Total outside United States	560	504	436
Total provision for income taxes	$ 1,565	$ 1,414	$ 1,287

At December 31, 2001, applicable United States federal income taxes and foreign withholding taxes have not been provided on approximately $1.5 billion of accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested. The Company is unable to provide a meaningful estimate of additional deferred taxes that would have been provided were these earnings not considered permanently reinvested.

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, 2001, 2000 and 1999:

	2001	2000	1999
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	2.0	2.2	3.0
Goodwill amortization	9.4	5.2	5.9
Other	(1.0)	(1.0)	(1.6)
Effective tax rate	45.4%	41.4%	42.3%

The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities consisted of the following at December 31, 2001 and 2000:

(in millions)

	2001	2000
Deferred income tax assets:		
Accrued postretirement and postemployment benefits	$ 774	$ 789
Other	737	539
Total deferred income tax assets	1,511	1,328
Deferred income tax liabilities:		
Trade names	(3,847)	
Property, plant and equipment	(1,379)	(1,527)
Prepaid pension costs	(850)	(743)
Total deferred income tax liabilities	(6,076)	(2,270)
Net deferred income tax liabilities	$(4,565)	$ (942)

Note 13. 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; 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 through 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 and amortization of goodwill. Interest and other debt expense, net, and provision for income taxes are centrally managed 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:

(in millions)			
For the Years Ended December 31,	2001	2000	1999
Operating revenues:			
Cheese, Meals and Enhancers	$ 10,256	$ 9,405	$ 9,360
Biscuits, Snacks and Confectionery	5,917	329	265
Beverages, Desserts and Cereals	5,370	5,266	5,074
Oscar Mayer and Pizza	3,563	3,461	3,198
Total Kraft Foods North America	25,106	18,461	17,897
Europe, Middle East and Africa	6,339	6,824	7,676
Latin America and Asia Pacific	2,430	1,247	1,224
Total Kraft Foods International	8,769	8,071	8,900
Total operating revenues	$ 33,875	$ 26,532	$ 26,797
Operating companies income:			
Cheese, Meals and Enhancers	$ 2,099	$ 1,845	$ 1,658
Biscuits, Snacks and Confectionery	966	100	73
Beverages, Desserts and Cereals	1,192	1,090	1,009
Oscar Mayer and Pizza	539	512	450
Total Kraft Foods North America	4,796	3,547	3,190
Europe, Middle East and Africa	861	1,019	895
Latin America and Asia Pacific	378	189	168
Total Kraft Foods International	1,239	1,208	1,063
Total operating companies income	6,035	4,755	4,253
Amortization of goodwill and other intangibles	(962)	(535)	(539)
General corporate expenses	(189)	(208)	(135)
Total operating income	4,884	4,012	3,579
Interest and other debt expense, net	(1,437)	(597)	(539)
Earnings before income taxes	$ 3,447	$ 3,415	$ 3,040

As previously noted, the Company's international operations are managed by geographic location. Operating revenues by consumer sector for Kraft Foods International were as follows:

Consumer Sector

(in millions)			
For the Years Ended December 31,	2001	2000	1999
Snacks	$ 3,263	$ 2,723	$ 2,999
Beverages	3,097	3,201	3,551
Cheese	1,267	1,259	1,316
Grocery	866	584	664
Convenient Meals	276	304	370
Total	$ 8,769	$ 8,071	$ 8,900

During 2001, the Company recorded pre-tax charges of $53 million for site reconfigurations and other consolidation programs in the United States. In addition, the Company recorded a pre-tax charge of $29 million to close a North American food factory. These pre-tax charges, which aggregate $82 million, were included in marketing, administration and research costs in the consolidated statement of earnings for the following segments: Cheese, Meals and Enhancers, $63 million; Biscuits, Snacks and Confectionery, $2 million; Beverages, Desserts and Cereals, $12 million; and Oscar Mayer and Pizza, $5 million.

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 consolidated 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 primarily affected the reported results of the Biscuits, Snacks and Confectionery and the Latin America and Asia Pacific segments.

(in millions)

For the Years Ended December 31,	2001	2000	1999
Depreciation expense:			
Cheese, Meals and Enhancers	$ 163	$ 150	$ 135
Biscuits, Snacks and Confectionery	152		
Beverages, Desserts and Cereals	113	109	102
Oscar Mayer and Pizza	55	51	49
Total Kraft Foods North America	483	310	286
Europe, Middle East and Africa	158	163	175
Latin America and Asia Pacific	39	26	30
Total Kraft Foods International	197	189	205
Total depreciation expense	$ 680	$ 499	$ 491
Capital expenditures:			
Cheese, Meals and Enhancers	$ 257	$ 247	$ 246
Biscuits, Snacks and Confectionery	171		
Beverages, Desserts and Cereals	202	193	204
Oscar Mayer and Pizza	131	148	125
Total Kraft Foods North America	761	588	575
Europe, Middle East and Africa	231	239	255
Latin America and Asia Pacific	109	79	30
Total Kraft Foods International	340	318	285
Total capital expenditures	$ 1,101	$ 906	$ 860

Geographic data for operating revenues, total assets and long-lived assets (which consist of all non-current assets, other than goodwill and other intangible assets and prepaid pension assets) were as follows:

(in millions)

For the Years Ended December 31,	2001	2000	1999
Operating revenues:			
United States	$23,078	$16,910	$16,540
Europe	6,062	6,642	7,500
Other	4,735	2,980	2,757
Total operating revenues	$33,875	$26,532	$26,797

(in millions)

At December 31,	2001	2000	1999
Total assets:			
United States	$43,889	$40,454	$19,429
Europe	7,366	7,630	8,292
Other	4,543	3,987	2,615
Total assets	$55,798	$52,071	$30,336
Long-lived assets:			
United States	$ 6,750	$ 6,684	$ 3,904
Europe	2,136	2,116	2,021
Other	1,274	1,912	971
Total long-lived assets	$10,160	$10,712	$ 6,896

Note 14. 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 for the years ended December 31, 2001, 2000 and 1999:

(in millions)	U.S. Plans			Non-U.S. Plans		
	2001	2000	1999	2001	2000	1999
Service cost	$ 107	$ 69	$ 76	$ 45	$ 37	$ 40
Interest cost	339	213	212	112	98	100
Expected return on plan assets	(648)	(523)	(511)	(126)	(103)	(97)
Amortization:						
Net gain on adoption of SFAS No. 87		(11)	(11)		(1)	(1)
Unrecognized net (gain) loss from experience differences	(21)	(36)	(15)	(1)	(1)	2
Prior service cost	8	7	6	5	4	4
Settlements	(12)	(34)	(41)			
Net pension (income) cost	$(227)	$(315)	$(284)	$ 35	$ 34	$ 48

In 2001 and 2000, retiring employees elected lump-sum payments, resulting in settlement gains of $12 million and $34 million, respectively. During 2001, the Company announced that it was offering a voluntary early retirement program to certain eligible salaried employees in the United States. The program is expected to eliminate approximately 750 employees and will result in a pre-tax charge of approximately $140 million upon final employee acceptance in the first quarter of 2002. 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.

The changes in benefit obligations and plan assets, as well as the funded status of the Company's pension plans at December 31, 2001 and 2000, were as follows:

(in millions)	U.S. Plans		Non-U.S. Plans	
	2001	2000	2001	2000
Benefit obligation at January 1	$ 4,327	$ 2,766	$ 1,915	$ 1,740
Service cost	107	69	45	37
Interest cost	339	213	112	98
Benefits paid	(403)	(258)	(108)	(94)
Acquisitions	71	1,463	(22)	236
Settlements	14	11		
Actuarial losses	500	51	22	91
Currency			18	(205)
Other	9	12	39	12
Benefit obligation at December 31	4,964	4,327	2,021	1,915
Fair value of plan assets at January 1	7,039	6,282	1,589	1,314
Actual return on plan assets	(386)	(215)	(227)	103
Contributions	37	33	63	32
Benefits paid	(394)	(278)	(76)	(64)
Acquisitions	(45)	1,226	(41)	265
Currency			18	(121)
Actuarial gains (losses)	108	(9)	3	60
Fair value of plan assets at December 31	6,359	7,039	1,329	1,589
Excess (deficit) of plan assets versus benefit obligations at December 31	1,395	2,712	(692)	(326)
Unrecognized actuarial losses (gains)	756	(691)	226	(42)
Unrecognized prior service cost	56	54	49	27
Unrecognized net transition obligation	(1)		7	7
Net prepaid pension asset (liability)	$ 2,206	$ 2,075	$ (410)	$ (334)

The combined U.S. and non-U.S. pension plans resulted in a net prepaid asset of $1,796 million and $1,741 million at December 31, 2001 and 2000, respectively. These amounts were recognized in the Company's consolidated balance sheets at December 31, 2001 and 2000 as prepaid pension assets of $2,675 million and $2,623 million, respectively, for those plans in which plan assets exceeded their accumulated benefit obligations and as other liabilities of $879 million and $882 million at December 31, 2001 and 2000, respectively, for plans in which the accumulated benefit obligations exceeded their plan assets.

At December 31, 2001 and 2000, certain of the Company's U.S. plans were unfunded, with projected benefit and accumulated benefit obligations of $213 million and $164 million, respectively, in 2001 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 $1,165 million, $1,073 million and $416 million, respectively, as of December 31, 2001 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	
	2001	2000	2001	2000
Discount rate	7.00%	7.75%	5.80%	5.88%
Expected rate of return on plan assets	9.00	9.00	8.49	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 $63 million, $43 million and $41 million in 2001, 2000 and 1999, respectively.

Postretirement Benefit Plans: Net postretirement health care costs consisted of the following for the years ended December 31, 2001, 2000 and 1999:

	(in millions)		
	2001	2000	1999
Service cost	$ 34	$ 23	$ 27
Interest cost	168	109	101
Amortization:			
Unrecognized net loss from experience differences	5	2	3
Unrecognized prior service cost	(8)	(8)	(7)
Other expense			21
Net postretirement health care costs	$ 199	$ 126	$ 145

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 at December 31, 2001 and 2000 were as follows:

(in millions)	2001	2000
Accumulated postretirement benefit obligation at January 1	$2,102	$1,380
Service cost	34	23
Interest cost	168	109
Benefits paid	(172)	(111)
Acquisitions	8	633
Plan amendments	1	(7)
Actuarial losses	295	75
Accumulated postretirement benefit obligation at December 31	2,436	2,102
Unrecognized actuarial losses	(464)	(159)
Unrecognized prior service cost	53	62
Accrued postretirement health care costs	$2,025	$2,005

The current portion of the Company's accrued postretirement health care costs of $172 million and $138 million at December 31, 2001 and 2000, respectively, are included in other accrued liabilities on the consolidated balance sheets.

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation for U.S. plans was 7.5% in 2000, 6.8% in 2001 and 6.2% in 2002, gradually declining to 5.0% by the year 2005 and remaining at that level thereafter. For Canadian plans, the assumed health care cost trend rate was 8.0% in 2000, 9.0% in 2001 and 8.0% in 2002, gradually declining to 4.0% by the year 2006 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, 2001 and postretirement health care cost (service cost and interest cost) for the year then ended by approximately 9.2% 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, 2001 and postretirement health care cost (service cost and interest cost) for the year then ended by approximately 7.6% and 10.4%, respectively.

The accumulated postretirement benefit obligations for U.S. plans at December 31, 2001 and 2000 were determined using an assumed discount rate of 7.0% and 7.75%, respectively. The accumulated postretirement benefit obligations for Canadian plans at December 31, 2001 and 2000 were determined using assumed discount rates of 6.75% and 7.0%, respectively.

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, 2001, 2000 and 1999:

(in millions)	2001	2000	1999
Service cost	$ 20	$ 13	$ 12
Amortization of unrecognized net gains	(8)	(4)	(8)
Other expense			19
Net postemployment costs	$ 12	$ 9	$ 23

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 at December 31, 2001 and 2000 were as follows:

(in millions)	2001	2000
Accumulated benefit obligation at January 1	$ 373	$ 333
Service cost	20	13
Benefits paid	(156)	(76)
Acquisitions	269	74
Actuarial losses	14	29

Accumulated benefit obligation at December 31	520	373
Unrecognized experience gains	52	22
Accrued postemployment costs	$ 572	$ 395

The accumulated benefit obligation was determined using an assumed ultimate annual turnover rate of 0.3% in 2001 and 2000, assumed compensation cost increases of 4.5% in 2001 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 15. Additional Information:

(in millions)

For the Years Ended December 31,	2001	2000	1999
Research and development expense	$ 358	$ 270	$ 262
Advertising expense	$ 1,190	$ 1,198	$ 1,272
Interest and other debt expense, net:			
Interest expense, parent and affiliates	$ 1,103	$ 531	$ 458
Interest expense, external debt	349	84	89
Interest income	(15)	(18)	(8)
	$ 1,437	$ 597	$ 539
Rent expense	$ 372	$ 277	$ 285

Minimum rental commitments under non-cancelable operating leases in effect at December 31, 2001 were as follows:

	(in millions)
2002	$ 212
2003	171
2004	135
2005	109
2006	86
Thereafter	136
	$ 849

Note 16. Financial Instruments:

Derivative financial instruments: 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 and interest rate exposures. 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. 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 uses forward foreign exchange contracts and foreign currency options to mitigate its exposure to changes in foreign currency exchange rates from third-party and intercompany forecasted transactions. The primary currencies to which the Company is exposed include the Euro, Japanese yen and Canadian dollar. At December 31, 2001 and 2000, the Company had option and forward foreign exchange contracts with aggregate notional amounts of $431 million and $237 million, respectively, for the purchase or sale of foreign currencies. The effective portion of unrealized gains and losses associated with forward contracts is deferred as a component of accumulated other comprehensive losses until the underlying hedged transactions are reported on the Company's consolidated statement of earnings.

The Company uses interest rate swaps to hedge the fair value of an insignificant portion of its long-term debt. The differential to be paid or received is accrued and recognized as interest expense. 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. At December 31, 2001, the aggregate notional principal amount of those agreements was $102 million. Aggregate maturities at December 31, 2001 were $29 million in 2003 and $73 million in 2004. During the year ended December 31, 2001, there was no ineffectiveness relating to these fair value hedges.

During the year ended December 31, 2001, ineffectiveness related to cash flow hedges was not material. The Company is hedging forecasted transactions for periods not exceeding the next eighteen months and expects substantially all amounts reported in accumulated other comprehensive losses to be reclassified to the consolidated statement of earnings within the next twelve months.

The Company is exposed to price risk related to forecasted purchases of certain commodities used as raw materials by the Company's businesses. Accordingly, the Company uses commodity forward contracts, as cash flow hedges, primarily for coffee, cocoa, milk, cheese and wheat. Commodity futures and options are also used to hedge the price of certain commodities, including milk, coffee, cocoa, wheat, corn, sugar, soybean and energy. In general, commodity forward contracts qualify for the normal purchase exception under SFAS No. 133 and are, therefore, not subject to the provisions of SFAS No. 133. At December 31, 2001 and 2000, the Company had net long commodity positions of $589 million and $617 million, respectively. Unrealized gains or losses on net commodity positions were immaterial at December 31, 2001 and 2000. The effective portion of unrealized gains and losses on commodity futures and option contracts is deferred as a component of accumulated other comprehensive losses and is recognized as a component of cost of sales in the Company's consolidated statement of earnings when the related inventory is sold.

Hedging activity affected accumulated other comprehensive losses, net of income taxes, during the year ended December 31, 2001, as follows:

(in millions)

Balance as of January 1, 2001	$ --
Derivative losses transferred to earnings	15
Change in fair value	(33)
Balance as of December 31, 2001	$ (18)

The Company does not engage in trading or other speculative use of financial instruments. Derivative losses reported in accumulated other comprehensive losses are a result of qualifying hedging activity. Transfers of these losses from accumulated other comprehensive losses to earnings are offset by gains on the underlying hedged items.

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, 2001.

Fair value: The aggregate fair value, based on market quotes, of the Company's third-party debt at December 31, 2001 was $9,360 million as compared with its carrying value of $9,355 million. The aggregate fair value of the Company's third-party debt at December 31, 2000 was $3,605 million as compared with 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 value and carrying value of the Company's long-term notes payable to Philip Morris and its affiliates were $5,325 million and $5,000 million, respectively, at December 31, 2001 and $21,357 million and $21,407 million, respectively, at December 31, 2000.

See Notes 3, 7 and 8 for additional disclosures of fair value for short-term borrowings and long-term debt.

Note 17. 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 consolidated financial position or results of operations.

Prior to the effectiveness of the registration statement covering the shares of the Company's Class A common stock being sold in the IPO, some of the underwriters of the 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 the IPO. This form may have constituted a prospectus that did 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 the 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 was 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 consolidated financial position or results of operations.

Note 18. Quarterly Financial Data (Unaudited):

(in millions, except per share data)	2001 Quarters			
	First	Second	Third	Fourth
Operating revenues	$ 8,367	$ 8,692	$ 8,056	$ 8,760
Gross profit	$ 4,100	$ 4,300	$ 3,832	$ 4,112
Net earnings	$ 326	$ 505	$ 503	$ 548
Weighted average shares for diluted EPS	1,455	1,510	1,735	1,736
Per share data:				
Basic EPS	$ 0.22	$ 0.33	$ 0.29	$ 0.32
Diluted EPS	$ 0.22	$ 0.33	$ 0.29	$ 0.32
Dividends declared			$ 0.13	$ 0.13
Market price--high		$ 32.00	$ 34.81	$ 35.57
--low		$ 29.50	$ 30.00	$ 31.50

(in millions, except per share data)	2000 Quarters			
	First	Second	Third	Fourth
Operating revenues	$ 6,460	$ 6,974	$ 6,215	$ 6,883
Gross profit	$ 3,079	$ 3,417	$ 2,958	$ 3,161
Net earnings	$ 470	$ 568	$ 548	$ 415
Weighted average shares				

for diluted EPS	1,455	1,455	1,455	1,455
Per share data:				
Basic EPS	$ 0.32	$ 0.39	$ 0.38	$ 0.29
Diluted EPS	$ 0.32	$ 0.39	$ 0.38	$ 0.29

Basic and diluted EPS are computed independently for each of the periods presented. Accordingly, the sum of the quarterly EPS amounts may not agree to the total year.

On June 13, 2001, the Company completed an IPO by issuing 280 million shares of its Class A common stock.

During the third quarter of 2000, the Company recorded a pre-tax gain of $139 million on the sale of a French confectionery business.

The principal stock exchange, on which the Company's Class A common stock is listed, is the New York Stock Exchange. At January 31, 2002, there were approximately 1,500 holders of record of the Company's Class A common stock.

Report of Independent Accountants

To the Board of Directors and Shareholders of Kraft Foods Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, shareholders' equity and cash flows present fairly, in all material respects, the consolidated financial position of Kraft Foods Inc. and its subsidiaries (the "Company") at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, 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.

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
January 28, 2002

Company Report on Financial Statements

The consolidated financial statements and all related financial information herein are the responsibility of the Company. The financial statements, which include amounts based on judgments, have been prepared in accordance with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the financial statements.

The Company maintains a system of internal controls that it believes provides reasonable assurance that transactions are executed in accordance with management's authorization and properly recorded, that assets are safeguarded, and that accountability for assets is maintained. The system of internal controls is characterized by a control-oriented environment within the Company, which includes written policies and procedures, careful selection and training of personnel, and audits by a professional staff of internal auditors.

PricewaterhouseCoopers LLP, independent accountants, have audited and reported on the Company's consolidated financial statements. Their audits were performed in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors, composed of four non-employee directors, meets periodically with PricewaterhouseCoopers LLP, the Company's internal auditors and management representatives to review internal accounting control, auditing and financial reporting matters. Both PricewaterhouseCoopers LLP and the internal auditors have unrestricted access to the Audit Committee and may meet with it without management representatives being present.

Exhibit 21

SUBSIDIARIES OF THE COMPANY

Certain active subsidiaries of the Company and their subsidiaries as of December 31, 2001, are listed below. The names of certain subsidiaries, which considered in the aggregate would not constitute a significant subsidiary, have been omitted.

Name	State or Country of Organization
152999 Canada Inc.	Canada
20th Century Denmark Limited	Liberia
A/S Maarud	Norway
AB Estrella	Sweden
AB Kraft Foods Lietuva	Lithuania
AGF SP, Inc.	Japan
Airco IHC, Inc.	Delaware
Ajinomoto General Foods, Inc.	Japan
Aktieselskabet FMD af 11. juni 1920	Denmark
Balance Bar Company	Delaware
Beech-Nut Life Savers (Panama) S.A.	Panama
Beijing Nabisco Food Company Ltd.	China
Boca Foods Company	Delaware
Burlington Foods, Inc.	Delaware
Cafe GRAND'MERE S.A.	France
Callard & Bowser-Suchard, Inc.	Delaware
Canale S.A.	Argentina
Capri Sun, Inc.	Delaware
Churny Company, Inc.	Delaware
Compania Venezolana de Conservas C.A.	Venezuela
Cote d'Or Italia S.r.l.	Italy
Corporativo Kraft SRL	Mexico
Covenco Holding C.A.	Venezuela
Dely, S.A.	Guatemala
Distribuidora Pan Americana, S.A.	Panama
Dong Suh Foods Corporation	Korea
Dong Suh Oil & Fats Co., Ltd.	Korea
El Gallito Industrial, S.A.	Costa Rica
Establecimiento Modelo Terrabusi S.A.	Argentina
Estrella A/S	Denmark
Fattorie Osella S.p.A.	Italy
Fleischmann International, Inc.	Delaware
Fleischmann Nabisco Uruguay S.A.	Uruguay
Franklin Baker Company of the Philippines	Philippines
Freezer Queen Ltd.	Canada
Fulmer Corporation Limited	Bahamas
Gelatinas Ecuatoriana S.A.	Ecuador
General Foods Foreign Sales Corporation	Virgin Islands (U.S.)
Gevaliarosteriet AB	Sweden
Grundstucksgemeinschaft Kraft Foods	Germany

HAG GF AG	Germany
HAG-Coffex	France
Hervin Holdings, Inc.	Delaware
Industria e Comercio de Produtos Alimenticios Cerqueirense Ltda.	Brazil
Industrias Alimenticias Maguary Ltda.	Brazil
Iracema Industrias de Caju Ltda.	Brazil
Jacobs Suchard Alimentos do Brasil Ltda.	Brazil
Jupiter Produtos Alimenticios Ltda.	Brazil
Kraft Foods Slovakia a.s.	Slovak Republic
KFI - USLLC I	Delaware
KFI - USLLC II	Delaware
KFI - USLLC IV	Delaware
KFI - USLLC V	Delaware
KFI - USLLC VII	Delaware
KFI - USLLC IX	Delaware
KFI - USLLC XI	Delaware
KFI - USLLC XIII	Delaware
KJS Limited	Hong Kong
Kraft Canada Inc.	Canada
Kraft Food Ingredients Corp.	Delaware
Kraft Foods (Australia) Limited	Australia
Kraft Foods (New Zealand) Limited	New Zealand
Kraft Foods (Philippines), Inc.	Philippines
Kraft Foods (Puerto Rico), Inc.	Puerto Rico
Kraft Foods (Singapore) Pte Ltd	Singapore
Kraft Foods (Thailand) Limited	Thailand
Kraft Foods AS	Norway
Kraft Foods Belgium S.A.	Belgium
Kraft Foods Bulgaria AD	Bulgaria
Kraft Foods Central & Eastern Europe Service B.V.	Netherlands
Kraft Foods CR s.r.o.	Czech Republic
Kraft Foods Danmark ApS	Denmark
Kraft Foods Danmark Holding A/S	Denmark
Kraft Foods de Mexico S.A. de C.V.	Mexico
Kraft Foods Deutschland GmbH & Co. KG	Germany
Kraft Foods Deutschland Holding GmbH	Germany
Kraft Foods Egypt LLC	Egypt
Kraft Foods Espana, S.A.	Spain
Kraft Foods France	France
Kraft Foods Hellas S.A.	Greece
Kraft Foods Holding (Europa) GmbH	Switzerland
Kraft Foods Holdings, Inc.	Delaware
Kraft Foods Hors Domicile	France
Kraft Foods Hungaria Kft.	Hungary
Kraft Foods Inc.	Virginia
Kraft Foods International, Inc.	Delaware
Kraft Foods International Beverages, Inc.	Delaware
Kraft Foods International Services, Inc.	Delaware
Kraft Foods Investments Inc.	Delaware
Kraft Foods Ireland Limited	Ireland
Kraft Foods Italia S.p.A.	Italy
Kraft Foods Laverune	France

Subsidiary	Jurisdiction
Kraft Foods Limited	Australia
Kraft Foods Limited (Asia)	Hong Kong
Kraft Foods Manufacturing Corporation	Delaware
Kraft Foods Manufacturing GmbH & Co. KG	Germany
Kraft Foods Manufacturing Midwest, Inc.	Delaware
Kraft Foods Manufacturing West, Inc.	Delaware
Kraft Foods Maroc S.A.	Morocco
Kraft Foods Mexico Holding I BV	Netherlands
Kraft Foods Mexico Holdings II BV	Netherlands
Kraft Foods Namur S.A.	Belgium
Kraft Foods Nederland B.V.	Netherlands
Kraft Foods Norge AS	Norway
Kraft Foods North America, Inc.	Delaware
Kraft Foods Oesterreich GmbH	Austria
Kraft Foods Polska Sp.z o.o.	Poland
Kraft Foods Portugal Produtos Alimentares Lda.	Portugal
Kraft Foods Produktion GmbH	Germany
Kraft Foods R & D, Inc.	Delaware
Kraft Foods Romania SA	Romania
Kraft Foods Schweiz AG	Switzerland
Kraft Foods Schweiz Holding AG	Switzerland
Kraft Foods Strasbourg	France
Kraft Foods Taiwan Limited	Taiwan
Kraft Foods UK Ltd.	United Kingdom
Closed Joint Stock Company Kraft Foods Ukraine	Ukraine
Kraft Guangtong Food Company, Limited	China
Kraft Jacobs Suchard (Australia) Pty. Ltd.	Australia
Kraft Jacobs Suchard Service AG (Switzerland)	Switzerland
Kraft Japan, K.K.	Japan
Kraft Korea Inc.	Korea, Republic of
Kraft Foods Brasil, S.A.	Brazil
Kraft Foods Jamaica Limited	Jamaica
Kraft Pizza Company	Delaware
Kraft Foods Argentina S.A.	Argentina
Kraft Foods Uruguay, S.A.	Uruguay
Kraft Foods Sverige AB	Sweden
Kraft Tianmei Food (Tianjin) Co., Ltd.	China
Kraftsa Kraft Sabanci Gida Pazarlama ve Tic. A.S.	Turkey
Krema Limited	Ireland
Landers y Cia, S.A.	Colombia
Leite Gloria do Nordeste S.A.	Brazil
Marsa Kraft Jacobs Suchard Sabanci Gida Sanayi ve Ticaret A.S.	Turkey
Mirabell Salzburger Confiserie-und Bisquit GmbH	German Democratic Rep.
NABEC, S.A.	Ecuador
Nabisco (China) Limited	China
Nabisco (Thailand) Limited	Thailand
Nabisco Inversiones S.A.	Argentina
Nabisco Brands Holdings Denmark Limited	Liberia
Nabisco Caribbean Export, Inc.	Delaware
Nabisco de Nicaragua, S.A.	Nicaragua
Kraft Foods Dominicana, S.A.	Dom. Repub.
Nabisco Euro Holdings Ltd.	Cayman Islands

Nabisco Food (Suzhou) Co. Ltd.	China
Nabisco Group Ltd.	Delaware
Nabisco Holdings II B.V.	Netherlands
Nabisco Hong Kong Limited	Hong Kong
Nabisco International Limited	Nevada
Nabisco International M.E./Africa L.L.C.	Dubai, U.A.E.
Nabisco International, Inc.	Delaware
Nabisco International, S.A.	Panama
Nabisco Investments, Inc.	Delaware
Kraft Foods Peru S.A.	Peru
Nabisco Philippines, Inc.	Philippines
Nabisco Royal Argentina LLC	Delaware
Nabisco Royal de Honduras, S.A.	Honduras
Nabisco Royal del Ecuador, S.A.	Ecuador
Nabisco Royal, Inc.	New York
Nabisco South Africa (Proprietary) Limited	South Africa
Nabisco Taiwan Corporation	Taiwan
Nabisco Trading AG	Switzerland
Nabisco Venezuela, C.A.	Venezuela
Oy Estrella AB	Finland
Oy Kraft Foods Finland Ab	Finland
P.T. Kraft Ultrajaya Indonesia	Indonesia
Pavlides S.A. Chocolate Manufacturers	Greece
Phenix Leasing Corporation	Delaware
Phenix Management Corporation	Delaware
Posto Apolo Ltda.	Brazil
Productos Confitados Salvavidas de Guatemala, S.A.	Guatemala
Productos Kraft SRL	Mexico
Produtos Alimenticios Fleischmann e Royal Ltda.	Brazil
Produtos Alimenticios Pilar Ltda.	Brazil
Produtos Alimenticios Royal S.A.	Costa Rica
PT Nabisco Foods	Indonesia
Riespri, S.A.	Spain
Roskill Cartage and Storage Limited	New Zealand
San Dionisio Realty Corporation	Philippines
SB Leasing Inc.	Delaware
Seven Seas Foods, Inc.	Delaware
Stella D'oro Biscuit Co., Inc.	New York
Suchard Limited	United Kingdom
Suchard Schokolade Ges. MbH	Austria
Superior AgResource, Inc.	Delaware
Taloca AG	Switzerland
Taloca Ltda.	Brazil
Tevalca Holding C.A.	Venezuela
The Fleischmann Corporation	Delaware
The Hervin Company	Oregon
The Kenco Coffee Company Limited	United Kingdom
Transapolo-Transportes Rodoviarios Apolo Ltda.	Brazil
Vict. Th. Engwall & Co., Inc.	Delaware
Votesor BV	Netherlands
West Indies Yeast Company Limited	Jamaica
Yili-Nabisco Biscuit & Food Company Limited	China

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement of Kraft Foods Inc. (the "Company") on Form S-8 (File No. 333-71266) and in the Company's Registration Statement on Form S-3 (File No. 333-67770) of our report dated January 28, 2002 relating to the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 28, 2002 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
March 14, 2002

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENT THAT the undersigned, a Director of Kraft Foods Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Geoffrey C. Bible, Calvin J. Collier and James P. Dollive, or any one or more of them, his true and lawful attorney, for him and in his name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 2001 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these present.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal this 8th day of March, 2002.

/s/ Geoffrey C. Bible

Geoffrey C. Bible

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENT THAT the undersigned, a Director of Kraft Foods Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Geoffrey C. Bible, Calvin J. Collier and James P. Dollive, or any one or more of them, his true and lawful attorney, for him and in his name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 2001 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these present.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal this 8th day of March, 2002.

/s/ Louis C. Camilleri

Louis C. Camilleri

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENT THAT the undersigned, a Director of Kraft Foods Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Geoffrey C. Bible, Calvin J. Collier and James P. Dollive, or any one or more of them, his true and lawful attorney, for him and in his name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 2001 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these present.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal this 5th day of March, 2002.

/s/ W. James Farrell

W. James Farrell

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENT THAT the undersigned, a Director of Kraft Foods Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Geoffrey C. Bible, Calvin J. Collier and James P. Dollive, or any one or more of them, his true and lawful attorney, for him and in his name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 2001 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these present.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal this 5th day of March, 2002.

/s/ John C. Pope

John C. Pope

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENT THAT the undersigned, a Director of Kraft Foods Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Geoffrey C. Bible, Calvin J. Collier and James P. Dollive, or any one or more of them, her true and lawful attorney, for her and in her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 2001 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these present.

IN WITNESS WHEREOF, the undersigned has hereunto set her hand and seal this 5th day of March, 2002.

/s/ Mary L. Schapiro

Mary L. Schapiro

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENT THAT the undersigned, a Director of Kraft Foods Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Geoffrey C. Bible, Calvin J. Collier and James P. Dollive, or any one or more of them, his true and lawful attorney, for him and in his name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 2001 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these present.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal this 6th day of March, 2002.

/s/ William H. Webb

William H. Webb

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENT THAT the undersigned, a Director of Kraft Foods Inc., a Virginia corporation (the "Company"), does hereby constitute and appoint Geoffrey C. Bible, Calvin J. Collier and James P. Dollive, or any one or more of them, her true and lawful attorney, for her and in her name, place and stead, to execute, by manual or facsimile signature, electronic transmission or otherwise, the Annual Report on Form 10-K of the Company for the year ended December 31, 2001 and any amendments or supplements to said Annual Report and to cause the same to be filed with the Securities and Exchange Commission, together with any exhibits, financial statements and schedules included or to be incorporated by reference therein, hereby granting to said attorneys full power and authority to do and perform all and every act and thing whatsoever requisite or desirable to be done in and about the premises as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all acts and things which said attorneys may do or cause to be done by virtue of these present.

IN WITNESS WHEREOF, the undersigned has hereunto set her hand and seal this 5th day of March, 2002.

/s/ Deborah C. Wright

Deborah C. Wright