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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, 2003

COMMISSION FILE NUMBER 1-16483

KRAFT FOODS INC.

(Exact name of registrant as specified in its charter)

Virginia *(State or other jurisdiction of incorporation or organization)*	**52-2284372** *(I.R.S. Employer Identification No.)*
Three Lakes Drive, Northfield, Illinois *(Address of principal executive offices)*	**60093** *(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 ☒ 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. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

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 June 30, 2003, was approximately $9 billion. At February 27, 2004, there were 543,877,138 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, 2003 (the "2003 Annual Report") are incorporated in Part I, Part II and Part IV hereof and made a part hereof. Portions of the registrant's definitive proxy statement for use in connection with its annual meeting of shareholders to be held on April 27, 2004, filed with the Securities and Exchange Commission (the "SEC") on March 5, 2004, are 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. On December 11, 2000, Kraft acquired all of the outstanding shares of Nabisco Holdings Corp. ("Nabisco"). Kraft, through its subsidiaries (Kraft and its subsidiaries are hereinafter 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, Asia Pacific, the Middle East and Africa.

Prior to June 13, 2001, Kraft was a wholly owned subsidiary of Altria Group, Inc. On June 13, 2001, Kraft 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 Altria Group, Inc., incurred in connection with the acquisition of Nabisco. After the IPO, Altria Group, Inc. owned approximately 83.9% of the outstanding shares of Kraft's capital stock through its ownership of 49.5% of Kraft's Class A common stock and 100% of Kraft's Class B common stock. Kraft's Class A common stock has one vote per share, while its Class B common stock has ten votes per share. At December 31, 2003, Altria Group, Inc. held 97.9% of the combined voting power of Kraft's outstanding capital stock and owned approximately 84.6% of the outstanding shares of Kraft's capital stock.

In January 2004, the Company announced a three-year restructuring program with the objectives of leveraging the Company's global scale, realigning and lowering the cost structure, and optimizing capacity utilization. As part of this program, the Company anticipates the exit or closing of up to twenty plants and the elimination of approximately 6,000 positions. Over the next three years, the Company expects to incur up to $1.2 billion in pre-tax charges, reflecting asset disposals, severance and other implementation costs, including an estimated range of $750 million to $800 million in 2004. Approximately one-half of the pre-tax charges are expected to require cash payments. In addition, the Company expects to spend approximately $140 million in capital over the next three years to implement the program, including approximately $50 million in 2004. Cost savings as a result of this program in 2004 are expected to be approximately $120 million to $140 million and are anticipated to reach annual cost savings of approximately $400 million by 2006, all of which are expected to be used in supporting brand-building initiatives.

Source of Funds—Dividends

Because Kraft is a holding company, its principal source of funds is dividends from its subsidiaries. Kraft'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 150 countries. Kraft Foods North America operates in the United States, Canada, Mexico, and Puerto Rico and manages its operations principally by product category, while Kraft Foods International manages its operations by geographic region. During 2003, 2002 and 2001, Kraft Foods North America's segments were 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, Mexico and Puerto Rico were reported through the Cheese, Meals and Enhancers segment. Kraft Foods International's segments were Europe, Middle East and Africa; and Latin America and Asia Pacific.

During January 2004, the Company announced a new global organizational structure, which will result in new segments for financial reporting purposes. Beginning in 2004, the Company's new segments will be U.S. Beverages & Grocery; U.S. Snacks; U.S. Cheese, Canada & North America Foodservice; U.S. Convenient Meals; Europe, Middle East & Africa; and Latin America & Asia Pacific. The new segment structure in North America reflects a shift of certain divisions and brands between segments to align businesses with consumer targets. Results for the Mexico and Puerto Rico businesses will be reported in the Latin America & Asia Pacific segment.

The Company's 2003, 2002 and 2001 results by segment are discussed herein under the reporting structure in place during 2003. The Company will report financial results in the new segment structure beginning with the results for the first quarter of 2004, and historical amounts will be restated.

Net revenues and operating companies income* attributable to each segment (together with a reconciliation to consolidated operating income) 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 2003 Annual Report.

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

	For the Years Ended December 31,		
	2003	2002	2001
Kraft Foods North America:			
Cheese, Meals and Enhancers	36.0%	35.2%	35.3%
Biscuits, Snacks and Confectionery	14.3	16.7	15.5
Beverages, Desserts and Cereals	20.1	18.1	19.8
Oscar Mayer and Pizza	9.0	8.8	8.9
Kraft Foods International:			
Europe, Middle East and Africa	16.3	15.3	14.3
Latin America and Asia Pacific	4.3	5.9	6.2

Total Kraft Foods Inc.	100.0%	100.0%	100.0%

During the first quarter of 2003, the Company transferred management responsibility of its Canadian Biscuits and Pet Snacks operations from the Biscuits, Snacks and Confectionery segment to the Cheese, Meals and Enhancers segment, which contains the Company's other Canadian businesses. Accordingly, all prior period amounts have been reclassified to reflect the transfer.

* The Company's management uses operating companies income, which is defined as operating income before general corporate expenses and amortization of intangibles, to evaluate segment performance and allocate resources. Management believes it is appropriate to disclose this measure to help investors analyze business performance and trends of the various business segments.

(c) Narrative Description of Business

Markets and Products

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

- **Snacks**—primarily cookies, crackers, salted snacks and confectionery;
- **Beverages**—primarily coffee, aseptic juice drinks and powdered beverages;
- **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 2003 Net Revenues by Consumer Sector(3)					
Segment(1)	**Snacks**	**Beverages**	**Cheese**	**Grocery**	**Convenient Meals**	**Total**
Kraft Foods North America:						
Cheese, Meals and Enhancers(2)	8.3%	9.3%	75.1%	46.5%	30.1%	30.4%
Biscuits, Snacks and Confectionery	52.3					15.5
Beverages, Desserts and Cereals		39.7	1.8	39.2		14.7
Oscar Mayer and Pizza					63.5	10.0
Total Kraft Foods North America	60.6	49.0	76.9	85.7	93.6	70.6
Kraft Foods International:						
Europe, Middle East and Africa.	29.3	44.1	18.0	7.0	5.5	22.7
Latin America and Asia Pacific	10.1	6.9	5.1	7.3	0.9	6.7
Total Kraft Foods International	39.4	51.0	23.1	14.3	6.4	29.4
Total Kraft Foods Inc.	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Consumer Sector Percentage of Total Kraft Foods Inc.	29.6%	19.8%	18.2%	16.7%	15.7%	100.0%

(1) The amounts of net revenues, total assets and long-lived assets attributable to each of the Company's geographic regions and the amounts of net 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 2003 Annual Report.

(2) The Cheese, Meals and Enhancers segment includes the Company's United States food service business and its businesses in Canada, Mexico and Puerto Rico, 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 net revenues for each of the three years in the period ended December 31, 2003, were as follows:

	2003	2002	2001
Cheese	18%	18%	19%
Biscuits	14	15	15
Coffee	13	12	13
Confectionery	11	10	10

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

Kraft Foods North America:

Cheese, Meals and Enhancers

Snacks:	*Oreo* and *Chips Ahoy!* cookies in Canada and Mexico; *Newtons, Nilla, Nutter Butter,* and *SnackWell's* cookies in Canada; *Ritz* crackers in Canada and Mexico; *Premium, Triscuit, Wheat Thins, Cheese Nips, Honey Maid Grahams* and *Teddy Grahams* crackers in Canada; *Handi-Snacks* two-compartment snacks in Canada; *Life Savers* sugar confectionery products in Canada and Mexico; *Creme Savers, Altoids, Gummi Savers* and *Fruit Snacks* sugar confectionery products in Canada; and *Terry's* and *Toblerone* chocolate confectionery products in Canada.
Beverages:	*Maxwell House, Sanka* and *Nabob* coffees in Canada; *Kool-Aid* and *Tang* powdered beverages in Canada and Mexico; and *Capri Sun* (under license) 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 Home Originals* (under license) and *It's Pasta Anytime* 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 salted snacks; *Handi-Snacks* two-compartment snacks; *Life Savers*, *Creme Savers*, *Altoids*, *Gummi Savers* and *Fruit Snacks* sugar confectionery products; *Terry's* and *Toblerone* chocolate confectionery products; and *Milk-Bone* pet snacks.

Beverages, Desserts and Cereals

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

Oscar Mayer and Pizza

Convenient Meals:	*DiGiorno*, *Tombstone*, *Jack's* and *California Pizza Kitchen* (under license) frozen pizzas; *Lunchables* lunch combinations; *Oscar Mayer* and *Louis Rich* cold cuts, hot dogs and bacon; *Boca* soy-based meat alternatives; and *Back to Nature* cereals.

Kraft Foods International:

Europe, Middle East and Africa

Snacks:	*Milka*, *Suchard*, *Côte d'Or*, *Marabou*, *Toblerone*, *Freia*, *Terry's*, *Daim*, *Figaro*, *Korona*, *Poiana*, *Prince Polo*, *Alpen Gold* and *Siesta* chocolate confectionery products; and *Estrella*, *Maarud*, *Cipso* and *Lux* salted snacks.
Beverages:	*Jacobs*, *Gevalia*, *Carte Noire*, *Jacques Vabre*, *Kaffee HAG*, *Grand' Mère*, *Kenco*, *Saimaza*, *Maxwell House*, *Dadak*, *Onko*, *Samar* and *Nova Brasilia* coffees; *Tang* powdered beverages; and *Suchard Express*, *O'Boy* and *Kaba* chocolate drinks.
Cheese:	*Kraft*, *Dairylea*, *Sottilette* and *El Caserío* cheeses; and *Philadelphia* cream cheese.
Grocery:	*Kraft* pourable and spoonable salad dressings; and *Miracel Whip* spoonable dressings.
Convenient Meals:	*Lunchables* lunch combinations; *Kraft* and *Mirácoli* 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 beverages; and *Maguary* juice concentrate and ready-to-drink beverages.
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 biscuits 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 more or 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 dairy raw material requirements, including milk and cheese, from independent third

parties such as agricultural cooperatives and independent processors. 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 were higher in 2003 than those seen in 2002.

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 2003, coffee bean costs on average were higher than in 2002. 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 2003, cocoa bean costs on average were higher than in 2002.

The prices paid for raw materials and agricultural materials used in the products of Kraft Foods North America, Kraft Foods International and their subsidiaries 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. The Company uses hedging techniques to minimize the impact of price fluctuations in its principal raw materials. However, it does 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. 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.

Acquisitions and Divestitures

During 2003, the Company acquired a biscuits business in Egypt and trademarks associated with a small U.S.-based natural foods business. The total cost of these and other smaller acquisitions was $98 million. During 2002, the Company acquired a snacks business in Turkey and a biscuits business in Australia. The total cost of these and other smaller acquisitions was $122 million. 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 2003, the Company sold a European rice business and a branded fresh cheese business in Italy. The aggregate proceeds received from sales of businesses during 2003 were $96 million, on which the Company recorded pre-tax gains of $31 million. During 2002, the Company sold several small North American food businesses, some of which were previously classified as businesses held for sale. The net revenues and operating results of the businesses held for sale, which were not significant, were excluded from the Company's consolidated statements of earnings, and no gain or loss was recognized on these sales. In addition, the Company sold its Latin American yeast and industrial bakery ingredients business for $110 million and recorded a pre-tax gain of $69 million. The aggregate proceeds received from sales of businesses during 2002 were $219 million, on which the Company recorded pre-tax gains of $80 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 pre-tax gains of $8 million.

The operating results of these acquisitions and divestitures were not material to the Company's consolidated financial position, results of operations or cash flows in any of the periods presented.

Other Matters

Customers

For the year ended December 31, 2003, the Company's five largest customers accounted for approximately 27% of its net revenues, while the Company's ten largest customers accounted for approximately 37% of its net revenues. One of the Company's customers, Wal-Mart Stores, Inc., accounted for approximately 12% of net revenues for 2003.

Employees

At December 31, 2003, the Company employed approximately 106,000 people worldwide. Approximately 30% of the Company's 48,000 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, labor unions or workers' councils represent approximately 60% of the Company's 58,000 employees. 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 believes that its relations with employees and their representative organizations are good.

In January 2004, the Company announced a three-year restructuring program. Under this program, the Company anticipates the elimination of approximately 6,000 positions.

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 $380 million in 2003, $360 million in 2002 and $358 million in 2001.

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 Home Originals* Mexican style food products for sale in United States grocery stores, *California Pizza Kitchen* frozen pizzas for sale in grocery stores in the United States and Canada, *Pebbles* ready-to-eat cereals and *Breyers* yogurt products.

Similarly, the Company owns 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.

Seasonality

Demand for certain of the Company's products may be influenced by holidays, changes in seasons or other annual events. Due to the offsetting nature of demands for the Company's product portfolio, however, sales of the Company's products are generally evenly balanced throughout the year.

Environmental Regulation

The Company is 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 2003, subsidiaries of the Company were involved in 103 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 is 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 applicable environmental compliance requirements.

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, cash flows 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 SEC 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," "continues," "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. These statements are based on our assumptions and estimates and are subject to risks and uncertainties. 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 and demand for its products, the effects of changing prices for its raw materials and local economic and market 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, to broaden brand portfolios, 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 consummate and successfully integrate acquisitions and to realize the cost savings and improved asset utilization contemplated by its restructuring program. In addition, the Company is subject to the effects of foreign economies, currency movements, fluctuations in levels of customer inventories and credit and other business risks related to its customers operating in a challenging economic and competitive environment. The Company's

results are affected by its access to credit markets, borrowing costs and credit ratings, which may in turn be influenced by the credit ratings of Altria Group, Inc. The Company's benefit expense is subject to the investment performance of pension plan assets, interest rates and cost increases for medical benefits offered to employees and retirees. The food industry continues to be subject to recalls if products become adulterated or misbranded, liability if product consumption causes injury, ingredient disclosure and labeling laws and regulations and the possibility that consumers could lose confidence in the safety and quality of certain food products. The food industry is also subject to consumer concerns regarding genetically modified organisms and the health implications of obesity and trans-fatty acids. Developments in any of these areas, which are more fully described elsewhere in this document 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. Any forward-looking statements are made as of the date of the document in which they appear. 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 net revenues, total assets 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 2003 Annual Report.

Kraft's subsidiaries export coffee products, grocery products, cheese and processed meats. In 2003, exports from the United States by these subsidiaries amounted to approximately $99 million.

(e) Available Information

The Company is required to file annual, quarterly and special reports, proxy statements and other information with the SEC. Investors may read and copy any document that the Company files, including this Annual Report on Form 10-K, at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, from which investors can electronically access the Company's SEC filings.

The Company makes available free of charge on or through its website (www.kraft.com), its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after it electronically files such material with, or furnishes the material to, the SEC. Investors can also access the Company's filings with the SEC by visiting *http://ir.ccbn.com/ir.zhtml?t=kft&s=1901*. The information on the Company's website is not, and shall not be deemed to be, a part of this Report or incorporated into any other filings the Company makes with the SEC.

Item 2. ***Properties.***

The Company has 197 manufacturing and processing facilities worldwide. In North America, the Company has 90 facilities, and outside of North America there are 107 facilities located in 43 countries. These manufacturing and processing facilities are located throughout the following territories:

Territory	Number of Facilities
United States	66
Canada	20
Mexico	4
Western Europe	39
Central and Eastern Europe, Middle East and Africa	21
Latin America	31
Asia Pacific	16

Total	197

The Company owns 188 and leases nine 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.

As of December 31, 2003, the Company's distribution facilities consisted of 500 distribution centers and depots worldwide. In North America, the Company had 370 distribution centers and depots, more than 75% of which support the Company's direct-store-delivery systems. Outside North America, the Company had 130 distribution centers in 41 countries. The Company owns 60 of these distribution centers and two of these depots and leases 260 of these distribution centers and 178 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.

In January 2004, the Company announced a three-year restructuring program. As part of this program, the Company expects to exit or close up to 20 of its production facilities worldwide.

Item 3. *Legal Proceedings.*

Legal Proceedings

The Company is party 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 consolidated financial position, results of operations or cash flows.

On January 2, 2004, the Canada Border Services Agency ("CBSA"), an agency of the Canadian government, announced the initiation of an investigation into an allegation of injurious dumping by Kraft Foods North America of frozen self-rising crust pizza from the United States following a complaint filed by McCain Foods Limited, which claims that the alleged dumping is materially injuring Canadian production by causing price erosion, price suppression, lost sales and reduced profits. Kraft Canada is the major importer of frozen self-rising crust pizza from the United States, which it sells under the brand name *Delissio.* On the basis of McCain's allegation, the Canadian International Trade Tribunal ("CITT") issued a preliminary finding that there was a reasonable indication of injury in the Canadian market. Following this finding, the CBSA must make a preliminary determination as to whether dumping has occurred. This is currently scheduled for April 1, 2004, but may be extended by an additional 45 days. If the CBSA were to conclude on a preliminary basis that dumping has occurred, the CITT would commence a formal inquiry into whether the imports are in fact materially injuring Canadian production.

The CITT would be required to hold hearings and make a final determination as to material injury, if any, by the end of July 2004, subject to the possible 45-day extension. The Company is vigorously contesting McCain's allegations of dumping and material injury. If material injury is found by the CITT, dumping duties will be assessed against imports of frozen self-rising crust pizza from the United States for an initial period of five years. The dumping duties will be based upon a comparison of normal values determined by the CBSA for Kraft Foods North America against Kraft Foods North America's export prices. Frozen pizzas are currently imported into Canada from the United States on a duty-free basis under the terms of the North American Free Trade Agreement.

In November 2003, the Company was advised by the Fort Worth District Office of the SEC that the staff is considering recommending that the SEC bring a civil injunctive action against the Company charging it with aiding and abetting Fleming Companies ("Fleming") in violations of the securities laws. District staff alleges that a Company employee, who received a similar notice, signed documents requested by Fleming, which Fleming used in order to accelerate its revenue recognition. The notice does not contain any allegations or statements regarding the Company's accounting for transactions with Fleming. The Company believes that it properly recorded the transactions in accordance with accounting principles generally accepted in the United States. The Company has submitted a response to the staff indicating why it believes that no enforcement action should be brought against it. The Company has cooperated fully with the SEC with respect to this matter and the SEC's investigation of Fleming.

In October 2002, Mr. Mustapha Gaouar filed suit in the Commercial Court of Casablanca against the Company and Mr. Omar Berrada claiming damages of approximately $31 million arising from a non-compete undertaking signed by Mr. Gaouar allegedly under duress. The non-compete clause was contained in an agreement concluded in 1986 between Mr. Gaouar and Mr. Berrada acting for himself and for his group of companies, including Les Cafes Ennasr (renamed Kraft Foods Maroc), which was acquired by the Company from Mr. Berrada in 2001. In June 2003, the court issued a preliminary judgment against Kraft Foods Maroc and Mr. Berrada holding that Mr. Gaouar is entitled to damages for being deprived of the possibility of engaging in coffee roasting from 1986 due to such non-compete undertaking. At that time, the court appointed two experts to assess the amount of damages to be awarded. In December 2003, these experts delivered a report concluding that they could see no evidence of loss suffered by Mr. Gaouar. Mr. Gaouar has asked the court that this report be set aside and new court experts be appointed. The Company believes that it has various grounds for appeal of the original judgment and intends to pursue such an appeal after damages have been finally assessed. The existence of the claims of Mr. Gaouar was not disclosed by Mr. Berrada at the time of the Company's acquisition of Kraft Foods Maroc in 2001. As a result, in the event that the Company is ultimately found liable for damages to plaintiff in this case, the Company believes that it may have claims against Mr. Berrada for recovery of all or a portion of the amount.

In May 2002, the Company was served with a lawsuit filed in California by the American Environmental Safety Institute against several major chocolate manufacturers alleging that the defendants' chocolate products contain "potentially dangerous levels of lead and cadmium." The suit alleged that these levels, which are not disclosed on the product labels, are a violation of California's *Proposition 65*, which requires a warning on products containing chemicals "known to the State" to be carcinogens or reproductive toxicants. In December 2003, a settlement was reached, and all claims in the case were dismissed with prejudice. The settlement amount was not material to the Company.

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 parties currently are involved in settlement negotiations.

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 were both 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. In August 2002, the court entered summary judgment against the remaining two plaintiffs and dismissed all of their remaining claims. These two plaintiffs appealed that judgment, and in December 2003, the Appellate Division upheld the lower court's ruling dismissing all claims. The time to seek leave to appeal or to move for reconsideration expired on January 21, 2004, with no action taken by the two remaining plaintiffs, and the cases are now final and fully resolved in the Company's favor.

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

None.

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 59 of the 2003 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 1999-2003 appearing under the caption "Selected Financial Data" on page 39 of the 2003 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 23 to 38 of the 2003 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 36 to 37 of the 2003 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 2003 Annual Report as set forth under the caption "Quarterly Financial Data (Unaudited)" on page 59 and in the Index to Consolidated Financial Statements and Schedules (see Item 15) and made a part hereof.

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

None.

Item 9A. ***Controls and Procedures.***

The Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's reports filed or submitted under the Securities Exchange Act of 1934, as amended. There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. ***Directors and Executive Officers of the Registrant.***

Executive Officers of the Company

The following are the executive officers of the Company as of February 27, 2004:

Name	Age	Title
Roger K. Deromedi	50	Chief Executive Officer
Gustavo H. Abelenda	43	Group Vice President and President, Latin America Region
Daryl G. Brewster	47	Group Vice President and President, U.S. Snacks Sector
Maurizio Calenti	49	Group Vice President and President, Central and Eastern Europe, Middle East and Africa Region
Brian M. Carlisle	48	Group Vice President and President, Western Europe Region
James P. Dollive	52	Executive Vice President and Chief Financial Officer
Brian J. Driscoll	45	Senior Vice President, Sales, North America Commercial
Terry M. Faulk	58	Executive Vice President, Global Human Resources
Marc S. Firestone	44	Executive Vice President, General Counsel and Corporate Secretary
Arjun Gupta	40	Group Vice President and President, Asia Pacific Region
Betsy D. Holden	48	President, Global Marketing and Category Development
Pascal Houssin	52	Senior Vice President, Sales, International Commercial
David S. Johnson	48	President, North America Commercial
Alene Korby	50	Executive Vice President and Chief Information Officer
Joachim Krawczyk	52	Group Vice President and President, West Central Europe Region
John F. Mowrer III	54	Senior Vice President and Controller
Michael Mudd	52	Executive Vice President, Global Corporate Affairs
David G. Owens	52	Executive Vice President, Global Strategy and Business Development
Kevin Ponticelli	46	Group Vice President and President, U.S. Cheese and Dairy Sector
Hugh H. Roberts	52	President, International Commercial
Thomas H. Sampson	45	Senior Vice President and President, North America Foodservice
Fred Schaeffer	43	Senior Vice President and General Manager, Kraft Canada
Richard G. Searer	50	Group Vice President and President, U.S. Convenient Meals Sector
Elizabeth A. Smith	40	Group Vice President and President, U.S. Beverages and Grocery Sectors
Jean E. Spence	46	Executive Vice President, Global Technology and Quality
Franz-Josef H. Vogelsang	53	Executive Vice President, Global Supply Chain

All of the above-named officers have been employed by the Company in various capacities during the past five years, except for Mr. Firestone. Prior to joining the Company in 2003, Mr. Firestone was Senior Vice President and General Counsel for Philip Morris International Inc. From 1998 until 2001, he was Chief Counsel for Philip Morris Europe.

The Company has adopted a code of ethics as defined in Item 406 of Regulation S-K, which code applies to all of its employees, including its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. This code of ethics is available free of charge on the Company's website at www.kraft.com and will be provided free of charge to any stockholder requesting a copy by writing to: Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, IL 60093.

In addition, the Company has adopted corporate governance guidelines and charters for its Audit Committee and Compensation and Governance Committee and will adopt a code of business conduct and ethics that applies to the members of its Board of Directors. All of these materials will be available on the Company's website at www.kraft.com by April 27, 2004 and will be provided free of charge to any stockholder requesting a copy by writing to: Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, IL 60093.

The information on the Company's website is not, and shall not be deemed to be, a part of this Report or incorporated into any other filings the Company makes with the SEC.

Item 11. ***Executive Compensation.***

Except for the information relating to the executive officers of, and certain documents adopted by, the Company set forth in Item 10 of this Report and the information regarding equity compensation plans set forth in Item 12 below, the information called for by Items 10-14 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 27, 2004, filed with the SEC on March 5, 2004, and, except as indicated therein, is made a part hereof.

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

The number of shares to be issued upon exercise or vesting and the number of shares remaining available for future issuance under the Company's equity compensation plans at December 31, 2003 were as follows:

Equity Compensation Plan Information

	Number of Shares to be Issued Upon Exercise of Outstanding Options and Vesting of Restricted Stock	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by stockholders	19,874,234	$ 31.00	51,788,645

Item 13. ***Certain Relationships and Related Transactions.***

See Item 11.

Item 14. ***Principal Accounting Fees and Services.***

See Item 11.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K.***

(a) Index to Consolidated Financial Statements and Schedules

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 2003, the Company furnished to the SEC a Current Report on Form 8-K on October 15, 2003, covering Item 7 (Financial Statements and Exhibits) and Item 12 (Results of Operations and Financial Condition), which contained the

Company's earnings release dated October 15, 2003. Subsequent to December 31, 2003, the Company (i) furnished to the SEC a Current Report on Form 8-K on January 27, 2004, covering Item 7 (Financial Statements and Exhibits) and Item 12 (Results of Operations and Financial Condition), which contained the Company's earnings release dated January 27, 2004; and (ii) filed a Current Report on Form 8-K on January 28, 2004, covering Item 5 (Other Events) and Item 7 (Financial Statements and Exhibits), which contained the Company's consolidated financial statements as of and for the year ended December 31, 2003.

(c) The following exhibits are filed as part of this Report (Exhibit Nos. 10.4-10.13 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
4.1	Indenture between the Registrant and JPMorgan Chase Bank, Trustee, dated as of October 17, 2001(2)
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 Altria Group, Inc. and the Registrant(3)
10.2	Services Agreement between Altria Corporate Services, Inc. and the Registrant (including Exhibits)(4)
10.3	Tax-Sharing Agreement between Altria Group, Inc. and the Registrant(5)
10.4	2001 Kraft Foods Inc. Performance Incentive Plan(3)
10.5	2001 Kraft Foods Inc. Compensation Plan for Non-Employee Directors, as amended(6)
10.6	Form of Employment Agreement entered into by Altria Group, Inc. with each of Betsy D. Holden and Roger K. Deromedi(5)
10.7	Kraft Foods Inc. Supplemental Benefits Plan I (including First Amendment adding Supplement A)(5)
10.8	Kraft Foods Inc. Supplemental Benefits Plan II(5)
10.9	Form of Employee Grantor Trust Enrollment Agreement(7)(11)
10.10	The Altria Group, Inc. 1992 Incentive Compensation and Stock Option Plan(8)(11)
10.11	The Altria Group, Inc. 1997 Performance Incentive Plan(9)(11)
10.12	The Altria Group, Inc. 2000 Performance Incentive Plan(10)(11)
10.13	2001 Kraft Foods Inc. Compensation Plan for Non-Employee Directors (Deferred Compensation)(12)
10.14	Five-Year Revolving Credit Agreement dated as of July 24, 2001(6)
10.15	364 Day Revolving Credit Agreement dated as of July 14, 2003(13)
10.16	Letter Agreement with Betsy D. Holden
10.17	Description of Agreement with Roger K. Deromedi
12	Statements re: computation of ratios(14)
13	Pages 23-60 of the 2003 Annual Report, but only to the extent set forth in Items 1, 5-7, 7A, 8 and 15 hereof. With the exception of the aforementioned information incorporated by reference in this Annual Report on Form 10-K, the 2003 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

31.1	Certification of the Registrant's Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Registrant's Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Registrant's Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Registrant's Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(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 Form S-3 filed with the Securities and Exchange Commission on August 16, 2001 (No. 333-67770).

(3) 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).

(4) 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).

(5) 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).

(6) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

(7) Incorporated by reference to the Annual Report on Form 10-K of Altria Group, Inc. for the year ended December 31, 1995 (SEC File No. 1-8940).

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

(9) Incorporated by reference to the Proxy Statement of Altria Group, Inc. dated March 10, 1997 (SEC File No. 1-8940).

(10) Incorporated by reference to the Proxy Statement of Altria Group, Inc. dated March 10, 2000 (SEC File No. 1-8940).

(11) Compensation plans maintained by Altria Group, Inc. and its subsidiaries in which officers of the Registrant have historically participated.

(12) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001.

(13) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.

(14) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 28, 2004.

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,
Executive Vice President
and Chief Financial Officer)

Date: March 12, 2004

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 (Roger K. Deromedi)	Director and Chief Executive Officer	March 12, 2004
/s/ JAMES P. DOLLIVE (James P. Dollive)	Executive Vice President and Chief Financial Officer	March 12, 2004
/s/ JOHN F. MOWRER III (John F. Mowrer III)	Senior Vice President and Controller	March 12, 2004

*LOUIS C. CAMILLERI, DINYAR S. DEVITRE, W. JAMES FARRELL, BETSY D. HOLDEN, JOHN C. POPE, MARY L. SCHAPIRO, CHARLES R. WALL, DEBORAH C. WRIGHT	Directors	
*By: /s/ JAMES P. DOLLIVE (James P. Dollive, Attorney-in-fact)		March 12, 2004

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENT SCHEDULE

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

Our audits of the consolidated financial statements referred to in our report dated January 23, 2004 appearing in the 2003 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 15(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 23, 2004

KRAFT FOODS INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2003, 2002 and 2001
(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
			(a)	(b)	
2003:					
Allowance for discounts	$ 11	$ 29	$ —	$ 28	$ 12
Allowance for doubtful accounts	134	22	(5)	21	130
	$ 145	$ 51	$ (5)	$ 49	$ 142
2002:					
Allowance for discounts	$ 11	$ 10	$ 2	$ 12	$ 11
Allowance for doubtful accounts	168	25	(39)	20	134
	$ 179	$ 35	$ (37)	$ 32	$ 145
2001:					
Allowance for discounts	$ 7	$ 5	$ 4	$ 5	$ 11
Allowance for doubtful accounts	165	25	5	27	168
	$ 172	$ 30	$ 9	$ 32	$ 179

Notes:

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

(b) Represents charges for which allowances were created.

QuickLinks

EXHIBIT 3.3

AMENDED AND RESTATED BY-LAWS

OF

KRAFT FOODS INC.

ARTICLE I

MEETINGS OF SHAREHOLDERS

Section 1. ANNUAL MEETINGS. - The annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting, and any postponement or adjournment thereof, shall be held on such date and at such time as the Board of Directors may in its discretion determine.

Section 2. SPECIAL MEETINGS. - Unless otherwise provided by law, special meetings of the shareholders may be called by the chairman of the Board of Directors or by order of the Board of Directors, whenever deemed necessary. In addition, until Altria Group, Inc. ("Altria") owns less than 50 percent of the Corporation's outstanding voting shares on an as-converted basis, the Board of Directors shall call a special meeting of shareholders promptly upon the written request of Altria.

Section 3. PLACE OF MEETINGS. - All meetings of the shareholders shall be held at such places as from time to time may be fixed by the Board of Directors.

Section 4. NOTICE OF MEETINGS. - Notice, stating the place, day and hour and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than 10 nor more than 60 days before the date of the meeting (except as a different time is specified herein or by law), to each shareholder of record having voting power in respect of the business to be transacted thereat. Notice of a shareholders' meeting to act on an amendment of the Articles of Incorporation, a plan of merger or share exchange, a proposed sale of all, or substantially all of the Corporation's assets, otherwise than in the usual and regular course of business, or the dissolution of the Corporation shall be given not less than 25 nor more than 60 days before the date of the meeting and shall be accompanied, as appropriate, by a copy of the proposed amendment, plan of merger or share exchange or sale agreement.

Notwithstanding the foregoing, a written waiver of notice signed by the person or persons entitled to such notice, either before or after the time stated therein, shall be equivalent to the giving of such notice. A shareholder who attends a meeting shall be deemed to have (a) waived objection to lack of notice or defective notice of the meeting, unless at the beginning of the meeting he or she objects to holding the meeting or transacting business at the meeting, and (b) waived objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless he or she objects to considering the matter when it is presented.

Section 5. QUORUM. - At all meetings of the shareholders, unless a greater number or voting by classes is required by law, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum. If a quorum is present, action on a matter is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the vote of a greater number or voting by classes is required by law or the Articles of Incorporation, and except that in elections of directors those receiving the greatest number of votes shall be deemed elected even though not receiving a majority. Less than a quorum may adjourn.

Section 6. ORGANIZATION AND ORDER OF BUSINESS. - At all meetings of the shareholders, the chairman of the Board of Directors or, in the chairman's absence, any Philip Morris Designee (as defined in the Corporate Agreement, dated as of June 12, 2001, between the Corporation and Philip Morris Companies, Inc.), shall act as chairman. In the absence of all of the foregoing persons, or, if present, with their consent, a majority of the shares entitled to vote at such meeting, may appoint any person to act as chairman. The secretary of the Corporation shall act as secretary at all meetings of the shareholders. In the absence of the secretary, the chairman may appoint any person to act as secretary of the meeting.

The chairman shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the dismissal of business not properly presented, the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof and the opening and closing of the voting polls.

At each annual meeting of shareholders, only such business shall be conducted as shall have been properly brought before the meeting (a) by or at the direction of the Board of Directors or (b) by any shareholder of the Corporation who shall be entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 6. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of the Corporation. To be timely, a shareholder's notice must be given, either by personal delivery or by United States certified mail, postage prepaid, and received at the principal executive offices of the Corporation (i) not less than 120 days nor more than 150 days before the first anniversary of the date of the Corporation's proxy statement in connection with the last annual meeting of shareholders or (ii) if no annual meeting was held in the previous year or the date of the applicable annual meeting has been changed by more than 30 days from the date of the previous year's annual meeting, not less than 60 days before the date of the applicable annual meeting. A

shareholder's notice to the secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, including the complete text of any resolutions to be presented at the annual meeting, and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's stock transfer books, of such shareholder proposing such business, (c) a representation that such shareholder is a shareholder of record and intends to appear in person or by proxy at such meeting to bring the business before the meeting specified in the notice, (d) the class, series and number of shares of stock of the Corporation beneficially owned by the shareholder and (e) any material interest of the shareholder in such business. The secretary of the Corporation shall deliver each such shareholder's notice that has been timely received to the Board of Directors or a committee designated by the Board of Directors for review. Notwithstanding the foregoing, until Altria owns less than 50 percent of the Corporation's outstanding voting shares on an as-converted basis, notice by Altria shall be timely and complete if delivered orally at any time prior to or during the annual meeting. Notwithstanding anything in the By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 6. The chairman of an annual meeting shall, if the facts warrant, determine that the business was not brought before the meeting in accordance with the procedures prescribed by this Section 6. If the chairman should so determine, he or she shall so declare to the meeting and the business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 6, a shareholder seeking to have a proposal included in the Corporation's proxy statement shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, but not limited to, Rule 14a-8 or its successor provision.

Section 7. VOTING. - A shareholder may vote his or her shares in person or by proxy. Any proxy shall be delivered to the secretary of the meeting at or prior to the time designated by the chairman or in the order of business for so delivering such proxies. No proxy shall be valid after 11 months from its date, unless otherwise provided in the proxy. Each holder of record of stock of any class shall, as to all matters in respect of which stock of such class has voting power, be entitled to such vote as is provided in the Articles of Incorporation for each share of stock of such class standing in the holders' name on the books of the Corporation. Unless required by statute or determined by the chairman to be advisable, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the shareholder voting or by such shareholder's proxy, if there be such proxy.

Section 8. WRITTEN AUTHORIZATION. - A shareholder or a shareholder's duly authorized attorney-in-fact may execute a writing authorizing another person or persons to act for him or her as proxy. Execution may be accomplished by the shareholder or such shareholder's duly authorized attorney-in-fact or authorized officer, director, employee or agent signing such writing or causing such shareholder's signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

Section 9. ELECTRONIC AUTHORIZATION. - The secretary, any president or any executive vice president may approve procedures to enable a shareholder or a shareholder's duly authorized attorney-in-fact to authorize another person or persons to act for him or her as proxy by transmitting or authorizing the transmission of a telegram, cablegram, internet transmission, telephone transmission or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such transmission must either set forth or be submitted with information from which the inspectors of election can determine that the transmission was authorized by the shareholder or the shareholder's duly authorized attorney-in-fact. If it is determined that such transmissions are valid, the inspectors shall specify the information upon which they relied. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section 9 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Section 10. INSPECTORS. - At every meeting of the shareholders for election of directors, the proxies shall be received and taken in charge, all ballots shall be received and counted and all questions concerning the qualifications of voters, the validity of proxies and the acceptance or rejection of votes shall be decided by two or more inspectors. Such inspectors shall be appointed by the chairman of the meeting. They shall be sworn faithfully to perform their duties and shall in writing certify to the returns. No candidate for election as director shall be appointed or act as inspector.

ARTICLE II

BOARD OF DIRECTORS

Section 1. GENERAL POWERS. - The business and affairs of the Corporation shall be managed under the direction of the Board of Directors.

Section 2. NUMBER. - The number of directors shall be nine (9).

Section 3. TERM OF OFFICE AND QUALIFICATION. - Each director shall serve for the term for which he or she shall have been elected and until a successor shall have been duly elected.

Section 4. NOMINATION AND ELECTION OF DIRECTORS. - At each annual meeting of shareholders, the shareholders entitled to vote shall elect the directors. No person shall be eligible for election as a director unless nominated in accordance with the procedures set forth in this Section 4. Nominations of persons for election to the Board of Directors may be made by the Board of Directors or any committee designated by the Board of Directors or by any shareholder entitled to vote for the election of directors at the applicable meeting of shareholders

who complies with the notice procedures set forth in this Section 4. Such nominations, other than those made by the Board of Directors or any committee designated by the Board of Directors, may be made only if written notice of a shareholder's intent to nominate one or more persons for election as directors at the applicable meeting of shareholders has been given, either by personal delivery or by United States certified mail, postage prepaid, to the secretary of the Corporation and received (i) not less than 120 days nor more than 150 days before the first anniversary of the date of the Corporation's proxy statement in connection with the last annual meeting of shareholders, or (ii) if no annual meeting was held in the previous year or the date of the applicable annual meeting has been changed by more than 30 days from the date of the previous year's annual meeting, not less than 60 days before the date of the applicable annual meeting, or (iii) with respect to any special meeting of shareholders called for the election of directors, not later than the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such shareholder's notice shall set forth (a) as to the shareholder giving the notice, (i) the name and address, as they appear on the Corporation's stock transfer books, of such shareholder, (ii) a representation that such shareholder is a shareholder of record and intends to appear in person or by proxy at such meeting to nominate the person or persons specified in the notice, (iii) the class and number of shares of stock of the Corporation beneficially owned by such shareholder and (iv) a description of all arrangements or understandings between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such shareholder; and (b) as to each person whom the shareholder proposes to nominate for election as a director, (i) the name, age, business address and, if known, residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of stock of the Corporation that are beneficially owned by such person, (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required by the rules and regulations of the Securities and Exchange Commission promulgated under the Exchange Act and (v) the written consent of such person to be named in the proxy statement as a nominee and to serve as a director if elected. The secretary of the Corporation shall deliver each such shareholder's notice that has been timely received to the Board of Directors or a committee designated by the Board of Directors for review. Notwithstanding the foregoing, until Altria owns less than 50 percent of the Corporation's outstanding voting shares on an as-converted basis, notice by Altria shall be timely and complete if delivered orally at any time prior to or during the meeting. Any person nominated for election as director by the Board of Directors or any committee designated by the Board of Directors shall, upon the request of the Board of Directors or such committee, furnish to the secretary of the Corporation all such information pertaining to such person that is required to be set forth in a shareholder's notice of nomination. The chairman of the meeting of shareholders shall, if the facts warrant, determine that a nomination was not made in accordance with the procedures prescribed by this Section 4. If the chairman should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

Section 5. ORGANIZATION. - At all meetings of the Board of Directors, the chairman of the Board of Directors or, in the absence of the chairman, any Philip Morris Designee shall act as chairman of the meeting. The secretary of the Corporation shall act as secretary of meetings of the Board of Directors. In the absence of the secretary at such meeting, the chairman of the meeting shall appoint any person to act as secretary of the meeting.

Section 6. VACANCIES. - Any vacancy occurring in the Board of Directors, including a vacancy resulting from amending these By-Laws to increase the number of directors by 30 percent or less, may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors.

Section 7. PLACE OF MEETING. - Meetings of the Board of Directors, regular or special, may be held either within or without the Commonwealth of Virginia.

Section 8. ORGANIZATIONAL MEETING. - The annual organizational meeting of the Board of Directors shall be held immediately following adjournment of the annual meeting of shareholders and at the same place, without the requirement of any notice other than this provision of the By-Laws.

Section 9. REGULAR MEETINGS: NOTICE. - Regular meetings of the Board of Directors shall be held at such times and places as it may from time to time determine. Notice of such meetings need not be given if the time and place have been fixed at a previous meeting.

Section 10. SPECIAL MEETINGS. - Special meetings of the Board of Directors shall be held whenever called by order of the chairman of the Board of Directors or any Philip Morris Designee. Notice of each such meeting, which need not specify the business to be transacted thereat, shall be mailed to each director, addressed to his or her residence or usual place of business, at least twenty-four hours before the day on which the meeting is to be held, or shall be sent to such place by telegraph, telex or telecopy or be delivered personally or by telephone, not later than the day before the day on which the meeting is to be held.

Section 11. WAIVER OF NOTICE. - Whenever any notice is required to be given to a director of any meeting for any purpose under the provisions of law, the Articles of Incorporation or these By-Laws, a waiver thereof in writing signed by the person or persons entitled to such notice, either before or after the time stated therein, shall be equivalent to the giving of such notice. A director's attendance at or participation in a meeting waives any required notice to him or her of the meeting unless at the beginning of the meeting or promptly upon the director's arrival, he or she objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

Section 12. QUORUM AND MANNER OF ACTING. - Except where otherwise provided by law, a majority of the directors fixed by these By-Laws at the time of any regular or special meeting shall constitute a quorum for the transaction of business at such meeting, and the act of a

majority of the directors present at any such meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum, a majority of those present may adjourn the meeting from time to time until a quorum be had. Notice of any such adjourned meeting need not be given.

Section 13. ORDER OF BUSINESS. - At all meetings of the Board of Directors business may be transacted in such order as from time to time the Board of Directors may determine.

Section 14. COMMITTEES. - In addition to the executive committee authorized by Article III of these By-Laws, other committees, consisting of two or more directors, may be designated by the Board of Directors by a resolution adopted by the greater number of (a) a majority of all directors in office at the time the action is being taken or (b) the number of directors required to take action under Article II, Section 12 hereof. Any such committee, to the extent provided in the resolution of the Board of Directors designating the committee, shall have and may exercise the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, except as limited by law.

ARTICLE III

EXECUTIVE COMMITTEE

Section 1. HOW CONSTITUTED AND POWERS. - The Board of Directors, by resolution adopted pursuant to Article II, Section 14 hereof, may designate one or more directors to constitute an executive committee, who shall serve during the pleasure of the Board of Directors. The executive committee, to the extent provided in such resolution and permitted by law, shall have and may exercise all of the authority of the Board of Directors.

Section 2. ORGANIZATION, ETC. - The executive committee may choose a chairman and secretary. The executive committee shall keep a record of its acts and proceedings and report the same from time to time to the Board of Directors.

Section 3. MEETINGS. - Meetings of the executive committee may be called by any member of the committee. Notice of each such meeting, which need not specify the business to be transacted thereat, shall be mailed to each member of the committee, addressed to his or her residence or usual place of business, at least two days before the day on which the meeting is to be held or shall be sent to such place by telegraph, telex or telecopy or be delivered personally or by telephone, not later than the day before the day on which the meeting is to be held.

Section 4. QUORUM AND MANNER OF ACTING. - A majority of the executive committee shall constitute a quorum for transaction of business, and the act of a majority of those present at a meeting at which a quorum is present shall be the act of the executive committee. The members of the executive committee shall act only as a committee, and the individual members shall have no powers as such.

Section 5. REMOVAL. - Any member of the executive committee may be removed, with or without cause, at any time, by the Board of Directors.

Section 6. VACANCIES. - Any vacancy in the executive committee shall be filled by the Board of Directors.

ARTICLE IV

OFFICERS

Section 1. NUMBER. - The officers of the Corporation shall be a chief executive officer, a chief financial officer, one or more presidents, one or more executive vice presidents, a secretary and such other officers as may from time to time be chosen by the Board of Directors. Any two or more offices may be held by the same person.

Section 2. ELECTION, TERM OF OFFICE AND QUALIFICATIONS. - All officers of the Corporation shall be chosen annually by the Board of Directors, and each officer shall hold office until a successor shall have been duly chosen and qualified or until the officer resigns or is removed in the manner hereinafter provided.

Section 3. VACANCIES. - If any vacancy shall occur among the officers of the Corporation, such vacancy shall be filled by the Board of Directors.

Section 4. OTHER OFFICERS, AGENTS AND EMPLOYEES - THEIR POWERS AND DUTIES. - The Board of Directors may from time to time appoint such other officers as the Board of Directors may deem necessary, to hold office for such time as may be designated by it or during its pleasure, and the Board of Directors or the chief executive officer may appoint, from time to time, such agents and employees of the Corporation as may be deemed proper, and may authorize any officers to appoint and remove agents and employees. The Board of Directors or the chief executive officer may from time to time prescribe the powers and duties of such other officers, agents and employees of the Corporation.

Section 5. REMOVAL. - Any officer, agent or employee of the Corporation may be removed, either with or without cause, by a vote of a majority of the Board of Directors or, in the case of any agent or employee not appointed by the Board of Directors, by a superior officer upon whom such power of removal may be conferred by the Board of Directors or the chief executive officer.

Section 6. CHAIRMAN OF THE BOARD OF DIRECTORS. - The chairman of the Board of Directors shall be chosen from among the directors but shall not be an officer of the Corporation. The chairman of the Board of Directors shall preside at meetings of the shareholders and of the Board of Directors and shall be responsible to the Board of Directors. The chairman shall, from time to

time, report to the Board of Directors on matters within his or her knowledge that the interests of the Corporation may require be brought to its notice. The chairman shall do and perform such other duties as from time to time the Board of Directors may prescribe.

Section 7. CHIEF EXECUTIVE OFFICER. - The chief executive officer shall be devoted to the Corporation's business and affairs under the basic policies set by the Board of Directors and shall from time to time report to the Board of Directors on matters within his or her knowledge that the interests of the Corporation may require be brought to the Board of Directors' notice. The chief executive officer shall be responsible to the Board of Directors and shall perform such duties as shall be assigned to him or her by the Board of Directors.

Section 8. PRESIDENTS. - The presidents of the Corporation shall assist the chairman of the Board of Directors and the chief executive officer in carrying out their respective duties and shall perform those duties that may from time to time be assigned to them.

Section 9. EXECUTIVE VICE PRESIDENTS. - The executive vice presidents of the Corporation shall assist the chairman of the Board of Directors and the chief executive officer in carrying out their respective duties and shall perform those duties that may from time to time be assigned to them.

Section 10. CHIEF FINANCIAL OFFICER. - The chief financial officer shall be an executive vice president of the Corporation and shall be responsible for the management and supervision of the financial affairs of the Corporation.

Section 11. SECRETARY. - The secretary shall keep the minutes of all meetings of the shareholders and of the Board of Directors in a book or books kept for that purpose. He or she shall keep in safe custody the seal of the Corporation, and shall affix such seal to any instrument requiring it. The secretary shall have charge of such books and papers as the Board of Directors may direct. He or she shall attend to the giving and serving of all notices of the Corporation and shall also have such other powers and perform such other duties as pertain to the secretary's office, or as the Board of Directors or chief executive officer may from time to time prescribe.

ARTICLE V

CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

Section 1. CONTRACTS. - The chief executive officer, any president, any executive vice president and such other persons as the chief executive officer or the Board of Directors may authorize shall have the power to execute any contract or other instrument on behalf of the Corporation; no other officer, agent or employee shall, unless otherwise in these By-Laws provided, have any power or authority to bind the Corporation by any contract or acknowledgement, or pledge its credit or render it liable pecuniarily for any purpose or to any amount.

Section 2. LOANS. - The chief executive officer, any president, any executive vice president and such other persons as the chief executive officer or the Board of Directors may authorize shall have the power to effect loans and advances at any time for the Corporation from any bank, trust company or other institution, or from any corporation, firm or individual, and for such loans and advances may make, execute and deliver promissory notes or other evidences of indebtedness of the Corporation, and, as security for the payment of any and all loans, advances, indebtedness and liability of the Corporation, may pledge, hypothecate or transfer any and all stocks, securities and other personal property at any time held by the Corporation, and to that end endorse, assign and deliver the same.

Section 3. VOTING OF STOCK HELD. - The chief executive officer, any president, any executive vice president or the secretary may from time to time appoint an attorney or attorneys or agent or agents of the Corporation to cast the votes that the Corporation may be entitled to cast as a shareholder or otherwise in any other corporation, any of whose stock or securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, or to consent in writing to any action by any other such corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed on behalf of the Corporation such written proxies, consents, waivers or other instruments as such officer may deem necessary or proper in the premises; or the chief executive officer, any president, any executive vice president or the secretary may attend in person any meeting of the holders of stock or other securities of such other corporation and thereat vote or exercise any and all powers of the Corporation as the holder of such stock or other securities of such other corporation.

ARTICLE VI

CERTIFICATES REPRESENTING SHARES

Certificates representing shares of the Corporation shall be signed by the chief executive officer. Any and all signatures on such certificates, including signatures of officers, transfer agents and registrars, may be facsimile.

ARTICLE VII

DIVIDENDS

The Board of Directors may declare dividends from funds of the Corporation legally available therefor.

ARTICLE VIII

SEAL

The Board of Directors shall provide a suitable seal or seals, which shall be in the form of a circle, and shall bear around the circumference the words "Kraft Foods Inc." and in the center the word and figures "Virginia, 2000."

ARTICLE IX

FISCAL YEAR

The fiscal year of the Corporation shall be the calendar year.

ARTICLE X

AMENDMENT

The power to alter, amend or repeal the By-Laws of the Corporation or to adopt new By-Laws shall be vested in the Board of Directors, but By-Laws made by the Board of Directors may be repealed or changed by the shareholders, or new By-Laws may be adopted by the shareholders, and the shareholders may prescribe that any By-Laws made by them shall not be altered, amended or repealed by the directors.

ARTICLE XI

EMERGENCY BY-LAWS

If a quorum of the Board of Directors cannot be readily assembled because of some catastrophic event, and only in such event, these By-Laws shall, without further action by the Board of Directors, be deemed to have been amended for the duration of such emergency, as follows:

Section 1. Section 6 of Article II shall read as follows:

> Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the directors present at a meeting of the Board of Directors called in accordance with these By-Laws.

Section 2. The first sentence of Section 10 of Article II shall read as follows:

> Special meetings of the Board of Directors shall be held whenever called by order of any person having the powers and duties of the chairman of the Board of Directors.

Section 3. Section 12 of Article II shall read as follows:

> The directors present at any regular or special meeting called in accordance with these By-Laws shall constitute a quorum for the transaction of business at such meeting, and the action of a majority of such directors shall be the act of the Board of Directors, provided, however, that in the event that only one director is present at any such meeting no action except the election of directors shall be taken until at least two additional directors have been elected and are in attendance.

EXHIBIT 10.16

[LOGO] Kraft Foods

December 16, 2003

Ms Betsy D. Holden
Kraft Foods Inc.
Three Lakes Drive
Northfield, IL 60093

Dear Betsy:

I want you to know how thrilled both Roger and I are that you have agreed to take on the new responsibility of President, Global Marketing & Category Development for Kraft Foods Inc. We think that this is terrific news for both you and Kraft. We are confident that you will continue to make invaluable contributions to the Company in this new global role and as as member of the Kraft Board.

I am pleased to be able to confirm the discussions concerning your compensation and benefits in your new assignment that you have had with Terry Faulk, Senior Vice President, Human Resources of Kraft. As you know, it has not been Kraft's normal practice to confirm future compensation and benefits, but we feel that it is appropriate to do so at this time given the exceptional circumstances surrounding Kraft's departure from a dual CEO structure.

As agreed with Terry, your current salary and benefits will remain unchanged and you will continue to be eligible at the same target levels for Management Incentive Program payments, LTIP payments and Restricted Stock Awards as determined by Kraft's Compensation and Governance Committee in the ordinary course. You will also continue to participate in Kraft's benefit programs.

Should the Company terminate your employment for reasons other than cause or demote you or assign you materially fewer responsibilities during the three year period commencing January 1, 2004, the Company will provide you with severance payments equal to two years of base salary. The Company will also provide you with pro-rated LTIP and Management Incentive Program payments and a pro-rated payout of Restricted Stock in accordance with our current practice. In addition, for purposes of pension calculations, the Company will add five years to your age and vesting service for benefit eligibility but not for pensionable service.

Once again, we are delighted that you have agreed to accept this new assignment and stay on as part of the Kraft team. I wish you all the continued success that you so amply deserve.

With my warmest personal regards,

Sincerely,

/s/ Louis C. Camilleri

Louis C. Camilleri
Chairman

EXHIBIT 10.17

DESCRIPTION OF AGREEMENT WITH ROGER K. DEROMEDI

In recognition of Roger K. Deromedi's promotion in 2003 to Chief Executive Officer of Kraft Foods Inc., and in connection with his previous pension benefit earned at General Foods Corporation, Kraft Foods Inc. has agreed to use his final average earnings at retirement for purposes of calculating his pension benefit.

[KRAFT LOGO]

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, Kraft was a wholly-owned subsidiary of Altria Group, Inc. On June 13, 2001, Kraft 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 Altria Group, Inc., incurred in connection with the acquisition of Nabisco Holdings Corp. ("Nabisco"). After the IPO, Altria Group, Inc. owned approximately 83.9% of the outstanding shares of Kraft's capital stock through its ownership of 49.5% of Kraft's Class A common stock and 100% of Kraft's Class B common stock. Kraft's Class A common stock has one vote per share, while Kraft's Class B common stock has ten votes per share. At December 31, 2003, Altria Group, Inc. held 97.9% of the combined voting power of Kraft's outstanding capital stock and owned approximately 84.6% of the outstanding shares of Kraft's capital stock.

The Company conducts its global business through two subsidiaries: Kraft Foods North America, Inc. ("KFNA") and Kraft Foods International, Inc. ("KFI"). KFNA manages its operations principally by product category, while KFI manages its operations by geographic region. During 2003, 2002 and 2001, KFNA's segments were 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, Mexico and Puerto Rico were reported through the Cheese, Meals and Enhancers segment. KFI's segments were Europe, Middle East and Africa; and Latin America and Asia Pacific.

During January 2004, the Company announced a new global organizational structure, which will result in new segments for financial reporting purposes. Beginning in 2004, the Company's new segments will be U.S. Beverages & Grocery; U.S. Snacks; U.S. Cheese, Canada & North America Foodservice; U.S. Convenient Meals; Europe, Middle East & Africa; and Latin America & Asia Pacific. The new segment structure in North America reflects a shift of certain divisions and brands between segments to align businesses with consumer targets. Results for the Mexico and Puerto Rico businesses will be reported in the Latin America and Asia Pacific segment.

The Company's 2003, 2002 and 2001 results by segment are discussed herein under the reporting structure in place during 2003. The Company will report financial results in the new segment structure beginning with the results for the first quarter of 2004, and historical amounts will be restated.

Critical Accounting Policies

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 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 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 income taxes. The Company bases its estimates on historical experience and other assumptions that it believes are reasonable. If actual amounts are ultimately different from previous estimates, the revisions are included in the Company's consolidated results of operations 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.

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

The selection and disclosure of the Company's critical accounting policies and estimates have been discussed with the Company's Audit Committee. The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the Company's consolidated financial statements:

Employee Benefit Plans: As discussed in Note 14 to the consolidated financial statements, the Company provides a range of benefits to its employees and retired employees, including pensions, postretirement health care benefits and post employment benefits (primarily severance). The Company records 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 on plan assets, 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 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.

During the years ended December 31, 2003, 2002 and 2001, the Company recorded the following amounts in the consolidated statement of earnings for employee benefit plans:

(in millions)

	2003	2002	2001
U.S. pension plan income	$ (46)	$ (33)	$ (227)
Non-U.S. pension plan cost	74	47	35
Postretirement healthcare cost	229	217	199
Postemployment benefit plan cost	6	35	12
Employee savings plan cost	84	64	63
Net Expense for Employee benefit plans	$ 347	$ 330	$ 82

The 2003 net expense for employee benefit plans of $347 million increased by $17 million over the 2002 amount. This cost increase primarily relates to higher settlement losses in the U.S. pension plan, a lowering of the Company's discount rate assumption on its pension and postretirement benefit plans, increased amortization of deferred losses, as well as higher matching of employee contributions in the savings plan, partially offset by $148 million of costs in 2002 associated with voluntary early retirement and integration programs. The 2002 net expense for employee benefit plans of $330 million increased by $248 million over the 2001 amount. This increase includes the costs associated with voluntary early retirement and integration programs ($148 million), which were recorded during 2002. The remainder of the cost increase in 2002 primarily relates to a lowering of the Company's discount rate assumption on its pension and postretirement benefit plans, and lower than expected returns on invested pension assets.

In December 2003, the United States enacted into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Act establishes a prescription drug benefit under Medicare, known as "Medicare Part D," and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.

In January 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP

106-1"). The Company has elected to defer accounting for the effects of the Act, as permitted by FSP 106-1. Therefore, in accordance with FSP 106-1, the Company's accumulated postretirement benefit obligation and net postretirement health care costs included in the consolidated financial statements and accompanying notes do not reflect the effects of the Act on the plans. Specific authoritative guidance on the accounting for the federal subsidy is pending.

At December 31, 2003, for the U.S. pension and postretirement plans, the Company reduced its discount rate assumption from 6.5% to 6.25%, maintained its expected return on asset assumption at 9.0%, and increased its health care cost trend rate assumption. The Company presently anticipates that these assumption changes, coupled with the amortization of lower returns on pension fund assets in prior years, will result in an increase in 2004 pre-tax benefit expense of approximately $130 million, or approximately $0.05 per share. The expected increase in benefit expense is prior to the consideration of any cost reduction derived from the implementation of the Act, discussed above, and any impact of the three-year restructuring program announced in January 2004. The Company's long-term rate of return assumption remains at 9.0% based on the investment of its pension assets primarily in U.S. equity securities. While the Company does not presently anticipate a change in its 2004 assumptions, a fifty-basis-point decline in the Company's discount rate would increase the

Company's pension and postretirement expense by approximately $65 million, while a fifty-basis-point increase in the discount rate would decrease pension and postretirement expense by approximately $55 million. Similarly, a fifty-basis-point decrease (increase) in the expected return on plan assets would increase (decrease) the Company's pension expense for the U.S. pension plans by approximately $30 million. See Note 14 to the consolidated financial statements for a sensitivity discussion of the assumed health care cost trend rates.

Revenue Recognition: As required by U.S. GAAP, the Company recognizes revenues, net of sales incentives, and including shipping and handling charges billed to customers, upon shipment of goods when title and risk of loss pass to customers. Shipping and handling costs are classified as part of cost of sales. Provisions and allowances for estimated 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.

Depreciation and Amortization: The Company depreciates property, plant and equipment and amortizes definite life intangibles using straight-line methods over the estimated useful lives of the assets. As discussed in Note 2 to the consolidated financial statements, on January 1, 2002, the Company adopted the provisions of a new accounting standard and, as a result, stopped recording the amortization of goodwill as a charge to earnings as of January 1, 2002.

Marketing and Advertising 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 amounts on its year-end consolidated balance sheet with respect to marketing costs. The Company expenses advertising costs in the year incurred. The Company records consumer incentive and trade promotion costs as a reduction of revenues in the year in which these programs are offered, based on estimates of utilization and redemption rates that are developed from historical information.

Related Party Transactions: As discussed in Note 3 to the consolidated financial statements, Altria Group, Inc.'s subsidiary, Altria Corporate Services, Inc., provides the Company with various services, including planning, legal, treasury, accounting, auditing, insurance, human resources, office of the secretary, corporate affairs, information technology and tax services. Billings for these services, which were based on the cost to Altria Corporate Services, Inc. to provide such services and a management fee, were $318 million, $327 million and $339 million for the years ended December 31, 2003, 2002 and 2001, respectively. Although the cost of these services cannot be quantified on a stand-alone basis, management has assessed that the billings are reasonable based on the level of support provided by Altria Corporate Services, Inc., and that they reflect all services provided. The cost and nature of the services are reviewed annually by the Company's Audit Committee, which consists solely of independent directors. The effects of these transactions are included in operating cash flows in the

Company's consolidated statements of cash flows.

The Company had long-term notes payable to Altria Group, Inc. and its affiliates as follows:

(in millions)		
At December 31,	2003	2002
Notes payable in 2009, interest at 7.0%	$ --	$ 1,150
Short-term due to Altria Group, Inc. and affiliates reclassified as long-term		1,410
	$ --	$ 2,560

During 2003, the Company repaid Altria Group, Inc. the remaining $1,150 million on the 7.0% note, as well as the $1,410 million of short-term borrowings reclassified to long-term. In addition, at December 31, 2003 and 2002, the Company had short-term amounts payable to Altria Group, Inc. of $543 million and $895 million, respectively. Interest on these borrowings is based on the applicable London Interbank Offered Rate.

Income Taxes: The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." The accounts of the Company are included in the consolidated federal income tax return of Altria Group, Inc. 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 currently be utilized on a separate company basis, are utilized in Altria Group, Inc.'s consolidated federal income tax return, the benefit is recognized in the calculation of the Company's provision for income taxes. Based on the Company's current estimate, this benefit is calculated to be approximately $100 million, $240 million and $220 million for the years ended December 31, 2003, 2002 and 2001, respectively. The benefit is dependent on a variety of tax attributes which have a tendency to vary year to year. The Company makes payments to, or is reimbursed by, Altria Group, Inc. for the tax effects resulting from its inclusion in Altria Group, Inc.'s consolidated federal income tax return. The provision for income taxes is based on domestic and international statutory income tax rates and tax planning opportunities available to the Company in the jurisdictions in which it operates. Significant judgment is required in determining income tax provisions and in

evaluating tax positions. The Company establishes additional provisions for income taxes when, despite the belief that existing tax positions are fully supportable, there remain certain positions that are likely to be challenged and that may not be sustained on review by tax authorities. The Company adjusts these additional accruals in light of changing facts and circumstances. The consolidated tax provision includes the impact of changes to accruals that are considered appropriate, as well as the related net interest. If the Company's filing positions are ultimately upheld under audits by respective taxing authorities, it is possible that the provision for income taxes in future years may reflect favorable adjustments.

Business Environment

The Company is subject to a number of challenges that may adversely affect its businesses. These challenges, which are discussed below and under the "Forward-Looking and Cautionary Statements" section include:

- fluctuations in commodity prices;

- movements of foreign currencies against the U.S. dollar;

- competitive challenges in various products and markets, including price gaps with competitor products and the increasing price-consciousness of consumers;

- a rising cost environment;

- a trend toward increasing consolidation in the retail trade and consequent inventory reductions;

- changing consumer preferences;

- competitors with different profit objectives and less susceptibility to currency exchange rates; and

- consumer concerns about food safety, quality and health, including concerns about genetically modified organisms, trans-fatty acids and obesity.

To confront these challenges, the Company continues to take steps to build the value of its brands, to improve its food business portfolio with new product and marketing initiatives, to reduce costs through productivity and to address consumer concerns about food safety, quality and health. In July 2003, the Company announced a range of initiatives addressing product nutrition, marketing practices, consumer information, and public advocacy and dialogue.

During 2003, several factors contributed to lower than anticipated volume growth. These factors included higher price gaps in some key categories and countries, trade inventory reductions resulting from several customers experiencing financial difficulty, warehouse consolidations, store closings and retailers' stated initiatives to reduce working capital, as well as the combined adverse effect of global economic weakness. To improve volume and share trends, the Company increased spending behind certain businesses during the second half of 2003 by approximately $200 million more than had previously been planned. The Company also anticipates $500 million to $600 million of increased spending in 2004 over 2003 across all its businesses.

In January 2004, the Company announced its adoption of a four-point plan to achieve sustainable growth. The first element of the plan is to build brand value by continuing to improve its products, to use more value-added packaging, to develop innovative new products, to effectively manage price gaps and to build closer relationships with consumers.

The second element of the plan is to accelerate the shift in the Company's brand portfolio to address growing consumer demand for products meeting their health and wellness concerns and their desire for convenience. The Company is reducing trans-fat in its products, identifying its products that are low in carbohydrates, introducing more sugar-free products, and emphasizing positive nutrition products. The Company is addressing convenience needs by offering more convenient packaging, such as single-serve and resealable packaging, and products requiring reduced preparation. The Company is also offering packaging that is customized to suit the needs of growing alternate channels of distribution such as supercenters, mass merchandisers, drugstores and club stores. The Company also plans to shift its portfolio to reflect changing demographics, for example, by expanding the availability of Hispanic products and bilingual packaging.

The third component of the plan is to expand the Company's global scale through international growth, particularly in developing markets. These markets account for 84% of the world's population and 30% of its packaged food consumption, but only 11% of the Company's net revenues. The plan calls for the Company to capture the growth potential of its core categories in existing markets and to expand its core categories into new markets.

As the final component of its plan, the Company announced a three-year restructuring program with the objectives of leveraging the Company's global scale, realigning and lowering the cost structure, and optimizing capacity utilization. As part of this program, the Company anticipates the exit or losing of up to twenty plants and the elimination of approximately six thousand positions. Over the next three years, the Company expects to incur up to $1.2 billion in pre-tax charges, reflecting asset disposals, severance and other implementation costs, including an estimated range of $750 million to $800 million in 2004. Approximately one-half of the pre-tax charges are expected to require cash payments. In addition, the Company expects to spend approximately $140 million in capital over the next three years to implement the program, including approximately $50 million in 2004. Cost savings as a result of this program in 2004 are expected to be approximately $120 million to $140 million and are anticipated to reach annual cost savings of approximately $400 million by 2006, all of which are expected to be used in supporting brand-building initiatives.

Fluctuations in commodity prices can lead to retail price volatility and intensive price competition, and can influence consumer and trade buying patterns. KFNA's and KFI's businesses are subject to fluctuating commodity costs, including dairy, coffee and cocoa costs. In 2003, the Company's commodity costs on average were higher than those incurred in 2002 and adversely affected earnings.

The Company's performance in 2003 was also affected by a rising cost environment, which is expected to continue. In particular, the Company experienced increased pension, medical, packaging and energy costs.

During 2003, the Company acquired a biscuits business in Egypt and trademarks associated with a small U.S.-based natural foods business. The total cost of these and other smaller acquisitions was $98 million. During 2002, the Company acquired a snacks business in Turkey and a biscuits business in Australia. The total cost of these and other smaller acquisitions was $122 million. 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 effects of these acquisitions were not material to the Company's consolidated financial position, results of operations or cash flows in any of the periods presented.

During 2003, the Company sold a European rice business and a branded fresh cheese business in Italy. The aggregate proceeds received from sales of businesses were $96 million, on which the Company recorded pre-tax gains of $31 million.

During 2002, the Company sold several small North American food businesses, some of which were previously classified as businesses held for sale. The net revenues and operating results of the businesses held for sale, which were not significant, were excluded from the Company's consolidated statements of earnings, and no gain or loss was recognized on these sales. In addition, the Company sold its Latin American yeast and industrial bakery ingredients business for $110 million and recorded a pre-tax gain of $69 million. The aggregate proceeds received from sales of businesses during 2002 were $219 million, on which the Company recorded pre-tax gains of $80 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 pre-tax gains of $8 million.

The operating results of the businesses sold were not material to the Company's consolidated financial position, results of operations or cash flows in any of the periods presented.

In November 2003, the Company was advised by the Fort Worth District Office of the Securities and Exchange Commission ("SEC") that the staff is considering recommending that the SEC bring a civil injunctive action against the Company charging it with aiding and abetting Fleming Companies ("Fleming") in violations of the securities laws. District staff alleges that a Company employee, who received a similar "Wells" notice, signed documents requested by Fleming, which Fleming used in order to accelerate its revenue recognition. The notice does not contain any allegations or statements regarding the Company's accounting for transactions with Fleming. The Company believes that it properly recorded the transactions in accordance with U.S. GAAP. The Company has submitted a response to the staff indicating why it believes that no enforcement action should be brought against it. The Company has cooperated fully with the SEC with respect to this matter and the SEC's investigation of Fleming.

Consolidated Operating Results

(in millions, except per share data)			
Year Ended December 31,	2003	2002	2001
Volume (in pounds):			
Cheese, Meals and Enhancers	6,183	6,082	5,404
Biscuits, Snacks and Confectionery	2,083	2,185	2,165
Beverages, Desserts and Cereals	3,905	3,708	3,421
Oscar Mayer and Pizza	1,570	1,554	1,519
Total Kraft Foods North America	13,741	13,529	12,509
Europe, Middle East and Africa	2,971	2,961	2,826
Latin America and Asia Pacific	1,969	2,059	2,057
Total Kraft Foods International	4,940	5,020	4,883
Volume (in pounds)	18,681	18,549	17,392
Net revenues:			
Cheese, Meals and Enhancers	$ 9,439	$ 9,172	$ 9,014
Biscuits, Snacks and Confectionery	4,801	4,887	4,789
Beverages, Desserts and Cereals	4,567	4,412	4,237
Oscar Mayer and Pizza	3,100	3,014	2,930
Total Kraft Foods North America	21,907	21,485	20,970
Europe, Middle East and Africa	7,045	6,203	5,936
Latin America and Asia Pacific	2,058	2,035	2,328
Total Kraft Foods International	9,103	8,238	8,264
Net revenues	$ 31,010	$ 29,723	$ 29,234
Operating income:			
Operating companies income:			
Cheese, Meals and Enhancers	$ 2,230	$ 2,210	$ 2,132
Biscuits, Snacks and Confectionery	887	1,051	933
Beverages, Desserts and Cereals	1,247	1,136	1,192
Oscar Mayer and Pizza	556	556	539
Europe, Middle East and Africa	1,012	962	861
Latin America and Asia Pacific	270	368	378
Amortization of intangibles	(9)	(7)	(962)
General corporate expenses	(182)	(162)	(189)
Operating income	$ 6,011	$ 6,114	$ 4,884
Net earnings	$ 3,476	$ 3,394	$ 1,882
Weighted average shares for diluted earnings per share	1,728	1,736	1,610
Diluted earnings per share	$ 2.01	$ 1.96	$ 1.17

Operating income was affected by the following items during 2003, 2002 and 2001:

Integration Costs and a Loss on Sale of a Food Factory: During 2003, the Company reversed $13 million related to previously recorded integration charges. During 2002, the Company recorded pre-tax integration related charges of $115 million to consolidate production lines in North America, lose a Kraft facility and for other consolidation programs. In addition, during 2002, the Company reversed $4 million related to the loss on sale of a food factory. 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 lose a North American food factory. These items were included in the operating companies income of the following segments:

(in millions)

For the Years Ended December 31,	2003	2002	2001
Cheese, Meals and Enhancers	$ (10)	$ 30	$ 63
Biscuits, Snacks and Confectionery		1	2
Beverages, Desserts and Cereals	(3)	56	12
Oscar Mayer and Pizza		7	5
Latin America and Asia Pacific		17	
Integration costs and a loss on sale of a food factory	$ (13)	$ 111	$ 82

Asset Impairment and Exit Costs: During 2003, the Company recorded a pre-tax charge of $6 million for asset impairment and exit costs related to the closure of a Nordic snacks plant. During 2002, the Company recorded a pre-tax charge of $142 million related to employee acceptances under a voluntary retirement program. Approximately 700 employees elected to retire or terminate employment under the program. During 2001, there were no asset impairment and exit costs. These charges were included in the operating companies income of the following segments:

(in millions)

For the Years Ended December 31,	2003	2002
Cheese, Meals and Enhancers		$ 60
Biscuits, Snacks and Confectionery		3
Beverages, Desserts and Cereals		47
Oscar Mayer and Pizza		25
Europe, Middle East and Africa	$ 6	5
Latin America and Asia Pacific		2
Asset impairment and exit costs	$ 6	$ 142

Gains on Sales of Businesses: During 2003, the Company sold a European rice business and a branded fresh cheese business in Italy for aggregate pre-tax gains of $31 million. During 2002, the Company sold its Latin American yeast and industrial bakery ingredients business, resulting in a pre-tax gain of $69 million, and several small food businesses, resulting in pre-tax gains of $11 million. During 2003, 2002 and 2001, total gains on sales of businesses were included in the operating companies income of the following segments:

(in millions)

For the Years Ended December 31,	2003	2002	2001
Biscuits, Snacks and Confectionery		$ 8	
Europe, Middle East and Africa	$ 31		
Latin America and Asia Pacific		72	$ 8
Gains on sales of businesses	$ 31	$ 80	$ 8

Amortization of Intangibles: As previously discussed, the Company stopped recording the amortization of goodwill as a charge to earnings as of January 1, 2002.

Businesses Held for Sale: During 2001, certain small Nabisco businesses were reclassified to businesses held for sale, including their estimated results of operations through anticipated dates of sales. These businesses have subsequently been sold, with the exception of one business that had been held for sale since the acquisition of Nabisco. This business, which is no longer held for sale, has been included in the 2003 and 2002 consolidated operating results of KFNA.

As discussed in Note 13 to the consolidated financial statements, the Company's management uses operating companies income, which is defined as operating income before general corporate expenses and amortization of intangibles, to evaluate segment performance and allocate resources. Management believes it is appropriate to disclose this measure to help investors analyze the business performance and trends of the various business segments.

2003 compared with 2002

The following discussion compares consolidated operating results for 2003 with 2002.

Volume increased 132 million pounds (0.7%), due primarily to increased shipments in the Beverages, Desserts and Cereals segment and the Cheese, Meals and Enhancers segment, growth in developing markets and the impact of acquisitions, partially offset by the impact of divested businesses, lower consumption in certain categories, particularly U.S. cookies, trade inventory reductions, price competition and the impact of a weaker global economy.

Net revenues increased $1,287 million (4.3%), due to favorable currency ($730 million), higher pricing ($471 million, reflecting higher commodity and currency devaluation-driven cost increases, partially offset by higher promotional spending), higher volume/mix ($114 million) and the impact of acquisitions ($59 million), partially offset by the impact of divested businesses ($87 million).

Operating income decreased $103 million (1.7%), due primarily to higher fixed manufacturing costs ($110 million, including higher benefit costs), higher marketing, administration and research costs ($104 million), unfavorable costs, net of higher pricing ($94 million, due primarily to higher commodity costs and increased promotional spending), unfavorable volume/mix ($66 million), the impact of gains on sales of businesses ($49 million) and the impact of divestitures ($18 million), partially offset by the impact of lower pre-tax charges for asset impairment and exit costs ($136 million) and the impact

from integration costs and a loss on sale of a food factory ($124 million) and favorable currency ($94 million). The higher benefit costs were primarily related to pension and stock compensation costs.

Currency movements increased net revenues by $730 million and operating income by $94 million. These increases were due primarily to the further weakening of the U.S. dollar against the euro, the Canadian dollar and other currencies, partially offset by the strength of the U.S. dollar against certain Latin American currencies.

Interest and other debt expense, net, decreased $182 million. This decrease is due to the Company's refinancing of notes payable to Altria Group, Inc. and the use of free cash flow to pay down debt.

The Company's reported effective tax rate decreased by 0.6 percentage points to 34.9%, due primarily to rate differences from foreign operations.

Net earnings of $3,476 million increased $82 million (2.4%), due primarily to lower interest expense and a lower effective tax rate, partially offset by lower operating income. Diluted and basic earnings per share ("EPS"), which were both $2.01, increased by 2.6%.

2002 compared with 2001

The following discussion compares consolidated operating results for 2002 with 2001.

Volume increased 1,157 million pounds (6.7%), due primarily to the inclusion in 2002 of a business previously considered held for sale, new product introductions, geographic expansion and acquisitions.

Net revenues increased $489 million (1.7%), due primarily to higher volume/mix ($401 million), the inclusion in 2002 of a business previously considered held for sale ($252 million) and the impact of acquisitions ($191 million), partially offset by the adverse effect of currency exchange rates ($291 million) and lower sales prices on cheese and coffee products (driven by commodity-related declines).

Operating income increased $1,230 million (25.2%), due primarily to the elimination of substantially all goodwill amortization, volume growth and favorable margins.

Currency movements decreased net revenues by $291 million and operating income by $4 million. These decreases in net revenues and operating income were due primarily to the strength of the U.S. dollar against certain Latin American currencies, partially offset by the weakness of the U.S. dollar against the euro and other currencies.

Interest and other debt expense, net, decreased $590 million. This decrease was due primarily to lower debt levels after the repayment of Nabisco acquisition borrowings with the proceeds from the Company's IPO, as well as the Company's refinancing of notes payable to Altria Group, Inc. and lower short-term interest rates.

The Company's effective tax rate decreased by 9.9 percentage points to 35.5%, due primarily to the adoption of SFAS No. 141 and SFAS No. 142, under which the Company is no longer required to amortize goodwill as a charge to earnings.

Net earnings of $3,394 million increased $1,512 million (80.3%), due primarily to growth in operating income and lower interest expense. Diluted and basic EPS, which were both $1.96, increased by 67.5%.

Operating Results by Reportable Segment

Kraft Foods North America

(in millions)

For the Years Ended December 31,	2003	2002	2001
Volume (in pounds):			
Cheese, Meals and Enhancers	6,183	6,082	5,404
Biscuits, Snacks and Confectionery	2,083	2,185	2,165
Beverages, Desserts and Cereals	3,905	3,708	3,421
Oscar Mayer and Pizza	1,570	1,554	1,519
Volume (in pounds)	13,741	13,529	12,509
Net revenues:			
Cheese, Meals and Enhancers	$ 9,439	$ 9,172	$ 9,014
Biscuits, Snacks and Confectionery	4,801	4,887	4,789
Beverages, Desserts and Cereals	4,567	4,412	4,237
Oscar Mayer and Pizza	3,100	3,014	2,930
Net revenues	$ 21,907	$ 21,485	$ 20,970
Operating companies income:			
Cheese, Meals and Enhancers	$ 2,230	$ 2,210	$ 2,132
Biscuits, Snacks and Confectionery	887	1,051	933
Beverages, Desserts and Cereals	1,247	1,136	1,192
Oscar Mayer and Pizza	556	556	539
Operating companies income	$ 4,920	$ 4,953	$ 4,796

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2003 compared with 2002

The following discussion compares KFNA's operating results for 2003 with 2002.

During the first quarter of 2003, the Company transferred management responsibility of its Canadian Biscuits and Pet Snacks operations from the Biscuits, Snacks and Confectionery segment to the Cheese, Meals and Enhancers segment, which contains the Company's other Canadian businesses. Accordingly, all prior period amounts have been reclassified to reflect the transfer.

Volume increased 1.6%, due primarily to contributions from new products and increased shipments in the Beverages, Desserts and Cereals segment and the Cheese, Meals and Enhancers segment, partially offset by the divestiture of a small confectionery business in 2002, consumption weakness in certain categories, primarily cookies, and trade inventory reductions.

Net revenues increased $422 million (2.0%), due primarily to higher volume/mix ($170 million), higher pricing, net of increased promotional spending ($151 million), and favorable currency ($120 million), partially offset by the divestiture of a small confectionery business in 2002 ($21 million).

Operating companies income decreased $33 million (0.7%), due primarily to unfavorable costs, net of higher pricing ($161 million, including higher commodity costs and increased promotional spending), higher fixed manufacturing costs ($79 million, including higher benefit costs) and unfavorable volume/mix ($37 million), partially offset by 2002 pre-tax charges for asset impairment and exit costs ($135 million) and the impact of lower integration costs and a loss on sale of a food factory ($107 million).

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

Cheese, Meals and Enhancers: Volume increased 1.7%, due primarily to higher shipments in cheese, food service, Canada and Mexico. Cheese volume increased due primarily to improved consumption and share trends resulting from the investment program that began in the third quarter of 2003. Volume for the food service business in the United States also increased, due to higher shipments to national accounts. Volume in Canada and Mexico increased, driven by new beverage product introductions.

Net revenues increased $267 million (2.9%), due to favorable currency ($120 million), higher volume/mix ($82 million) and higher pricing ($65 million, including the impact of increased promotional spending).

Operating companies income increased $20 million (0.9%), due primarily to the 2002 pre-tax charges for asset impairment and exit costs ($60 million), the impact of lower integration costs and a loss on the sale of a food factory ($40 million) and favorable currency ($22 million), partially offset by unfavorable costs, net of higher pricing ($72 million, including higher commodity costs and increased promotional spending), higher fixed manufacturing costs ($23 million, including higher benefit costs) and unfavorable volume/mix.

Biscuits, Snacks and Confectionery: Volume decreased 4.7%, due primarily to lower shipments in biscuits and the divestiture of a small confectionery business in 2002. In biscuits, volume declined, due primarily to reduced consumption in cookies, reflecting higher pricing, lower impact of new products, and consumer health and wellness concerns. Snacks volume increased, benefiting from category and consumption gains in snack nuts.

Net revenues decreased $86 million (1.8%), due to lower volume/mix ($56 million), the divestiture of a small confectionery business in 2002 ($21 million) and higher promotional spending, net of higher pricing ($9 million).

Operating companies income decreased $164 million (15.6%), due primarily to lower volume/mix ($84 million), higher fixed manufacturing costs ($77 million) and unfavorable costs, net of higher pricing ($71 million, including higher commodity costs and increased promotional spending), partially offset by lower marketing, administration and research costs ($77 million).

Beverages, Desserts and Cereals: Volume increased 5.3%, due primarily to higher shipments of ready-to-drink beverages, which were aided by new product introductions. Desserts volume also increased, due primarily to higher shipments of sugar-free items and increased merchandising programs. In coffee, volume declined, impacted by competitive activity and a category decline due to higher prices.

Net revenues increased $155 million (3.5%), due to higher volume/mix ($100 million) and higher pricing ($55 million).

Operating companies income increased $111 million (9.8%), due primarily to the impact of lower integration costs ($59 million), the 2002 asset impairment and exit costs ($47 million) and higher volume/mix ($43 million), partially offset by higher marketing, administration and research costs ($31 million), unfavorable costs, net of higher pricing ($13 million, including higher commodity costs) and higher benefit costs.

Oscar Mayer and Pizza: Volume increased 1.0%, due primarily to gains in cold cuts, hot dogs, bacon, soy-based meat alternatives and frozen pizza.

Net revenues increased $86 million (2.9%), due primarily to higher volume/mix ($44 million) and higher pricing ($40 million, including the impact of increased promotional spending).

Operating companies income was equal to the prior year's, as the impact of 2002 pre-tax charges for asset impairment and exit costs ($25 million) and integration costs ($7 million), lower fixed manufacturing costs ($14 million) and higher volume/mix ($10 million) was offset by higher marketing, administration and research costs ($51 million), unfavorable costs, net of higher pricing ($5 million, including higher commodity costs and increased promotional spending) and higher benefit costs.

2002 compared with 2001

The following discussion compares KFNA's operating results for 2002 with 2001.

KFNA's volume increased 8.2%, due primarily to the inclusion in 2002 of a business that was previously held for sale and contributions from new products.

Net revenues increased $515 million (2.5%), due primarily to higher volume/mix ($437 million) and the inclusion in 2002 of a business that was previously held for sale ($252 million), partially offset by lower selling prices in response to lower commodity costs ($154 million).

Operating companies income increased $157 million (3.3%), due primarily to higher volume/mix ($174 million), favorable margins ($176 million, driven by lower commodity-related costs and productivity) and Nabisco synergy savings, partially offset by higher benefit expense, including the 2002 charge for asset impairment and exit costs ($135 million).

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

Cheese, Meals and Enhancers: Volume increased 12.5%, due primarily to the inclusion in 2002 of a business that was previously held for sale and volume gains in enhancers, meals and food service, partially offset by a decline in cheese. Volume gains in enhancers and meals were led by Kraft pourable dressings, barbecue sauce, macaroni & cheese dinners and the 2001 acquisition of It's Pasta Anytime. In cheese, volume declined as lower dairy costs resulted in aggressive competitive activity by private label manufacturers as they reduced prices and increased merchandising levels.

Net revenues increased $158 million (1.8%), due primarily to the inclusion in 2002 of a business that was previously held for sale ($252 million) and higher volume/mix ($34 million), partially offset by lower net pricing ($118 million, primarily related to lower dairy commodity costs).

Operating companies income increased $78 million (3.7%), due primarily to favorable margins ($63 million, due primarily to lower cheese commodity costs and productivity savings), lower integration related costs in 2002 ($33 million), higher volume/mix ($31 million) and the inclusion in 2002 of a business that was previously held for sale ($23 million), partially offset by higher benefit expenses, including the 2002 charge for asset impairment and exit costs ($60 million).

Biscuits, Snacks and Confectionery: Volume increased 0.9%, as volume gains in biscuits and snacks were partially offset by a decline in confectionery shipments. In biscuits, volume increased, driven by new product initiatives in both cookies and crackers. In snacks, volume also increased, due primarily to promotional initiatives. Confectionery volume declined, resulting primarily from competitive activity in the breath-freshening category, partially offset by new product introductions in the non-chocolate confectionery business.

Net revenues increased $98 million (2.0%), due primarily to higher volume/mix ($61 million) and higher net pricing ($35 million).

Operating companies income increased $118 million (12.6%), due primarily to favorable margins ($81 million, due primarily to higher net pricing and lower commodity costs for nuts), Nabisco synergy savings and higher volume/mix.

Beverages, Desserts and Cereals: Volume increased 8.4%, due primarily to growth in ready-to-drink beverages. In coffee, volume increased, driven by merchandising programs and packaging innovation. In the desserts business, volume increases were led by dry packaged desserts and frozen toppings, which benefited from holiday programs, and in ready-to-eat desserts, aided by new products.

Net revenues increased $175 million (4.1%), due primarily to higher volume/mix ($245 million), partially offset by lower net pricing ($58 million).

Operating companies income decreased $56 million (4.7%), primarily reflecting the 2002 charge for asset impairment and exit costs ($47 million), higher integration-related costs ($44 million), higher marketing, administration and research costs ($36 million, including higher benefit costs) and lower margins ($18 million), partially offset by higher volume/mix ($98 million) and productivity savings.

Oscar Mayer and Pizza: Volume increased 2.3%, due to volume gains in processed meats and pizza. The increase in processed meats was driven by gains in hot dogs, bacon and soy-based meat alternatives, aided by new product introductions. The pizza business also benefited from new products.

Net revenues increased $84 million (2.9%), due to higher volume/mix ($97 million), partially offset by lower net pricing ($13 million).

Operating companies income increased $17 million (3.2%), primarily reflecting favorable costs ($50 million, due primarily to lower meat and cheese commodity costs and productivity savings) and higher volume/mix ($30 million), partially offset by the 2002 charge for asset impairment and exit costs ($25 million), higher marketing, administration and research costs ($24 million, including higher benefit costs) and higher manufacturing costs.

Kraft Foods International

(in millions)

For the Years Ended December 31,	2003	2002	2001
Volume (in pounds):			
Europe, Middle East and Africa	2,971	2,961	2,826
Latin America and Asia Pacific	1,969	2,059	2,057
Volume (in pounds)	4,940	5,020	4,883

Net revenues:

Europe, Middle East and Africa	$ 7,045	$ 6,203	$ 5,936
Latin America and Asia Pacific	2,058	2,035	2,328
Net revenues	$ 9,103	$ 8,238	$ 8,264
Operating companies income:			
Europe, Middle East and Africa	$ 1,012	$ 962	$ 861
Latin America and Asia Pacific	270	368	378
Operating companies income	$ 1,282	$ 1,330	$ 1,239

2003 compared with 2002

The following discussion compares KFI's operating results for 2003 with 2002.

Volume decreased 1.6%, due to the divestiture of a Latin American bakery ingredients business in 2002 and a rice business and a branded fresh cheese business in Europe in 2003, the impact of price competition, particularly in Germany and France, and the adverse impact of a summer heat wave across Europe on the chocolate and coffee businesses. These declines were partially offset by growth in developing markets, including Russia, Brazil and China, and the acquisitions of a snacks business in Turkey and a biscuits business in Egypt.

Net revenues increased $865 million (10.5%), due to favorable currency ($610 million), higher pricing ($320 million, reflecting higher commodity and currency devaluation-driven cost increases in Latin America) and the impact of acquisitions ($57 million), partially offset by the impact of divestitures ($66 million) and lower volume/mix ($56 million).

Operating companies income decreased $48 million (3.6%), due primarily to higher marketing, administration and research costs ($98 million, including higher benefit costs and infrastructure investment in developing markets), the net impact of lower gains on sales of businesses ($41 million), lower volume/mix ($29 million) and the impact of divestitures ($13 million), partially offset by favorable currency ($72 million), higher pricing, net of cost increases ($36 million, including fixed manufacturing costs), the 2002 pre-tax charges for integration costs ($17 million) and the impact of acquisitions ($7 million).

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

Europe, Middle East and Africa: Volume increased 0.3%, due to volume growth in the Central and Eastern Europe, Middle East and Africa region, which benefited from the acquisition of a biscuits business in Egypt in 2003 as well as a snacks business acquisition in Turkey during the third quarter of 2002, and new product introductions. These gains were partially offset by the impact of the summer heat wave across Europe on the chocolate and coffee businesses, price competition in Germany and France, and the divestiture of a rice business and a branded fresh cheese business in Europe in 2003. In snacks, volume increased in biscuits and salted snacks, benefiting from acquisitions, partially offset by lower confectionery volume due to the summer heat wave across Europe and price competition. In beverages, volume declined, due primarily to the summer heat wave across Europe (which had an adverse impact on coffee shipments) and price competition. These declines were partially offset by increased coffee shipments in Russia, benefiting from expanded distribution, and Poland, aided by new product introductions. Convenient meals volume also declined, due to the divestiture of a rice business in Europe, partially offset by higher shipments of canned meats in Italy. Cheese volume declined, due primarily to the impact of price competition in Germany and Spain, partially offset by gains in ream cheese in Italy.

Net revenues increased $842 million (13.6%), due primarily to favorable currency ($808 million), the impact of acquisitions ($57 million) and higher pricing ($18 million), partially offset by unfavorable volume/mix ($43 million).

Operating companies income increased $50 million (5.2%), due primarily to favorable currency ($100 million) and the gain on the sale of a rice business and a branded fresh cheese business in Europe ($31 million), partially offset by unfavorable costs, net of higher pricing ($39 million, including higher commodity costs and increased promotional spending), unfavorable volume/mix ($28 million) and higher marketing, administration and research costs ($17 million, including higher benefit costs and infrastructure investment in eastern Europe).

Latin America and Asia Pacific: Volume decreased 4.4%, due to the divestiture of a Latin American bakery ingredients business in 2002, partially offset by growth in Argentina, Brazil, China and Australia. In grocery, volume declined in Latin America, due primarily to the sale of a bakery ingredients business in the fourth quarter of 2002. In beverages, volume increased, due primarily to growth in Brazil, Venezuela and China, aided by new product introductions. Snacks volume also increased, as biscuits volume growth in Brazil, Argentina, China and Australia, aided by new product introductions, was partially offset by a decline in confectionery, which was impacted by economic weakness, trade inventory reductions and price competition in Brazil. In cheese, volume increased, due to higher shipments in Asia Pacific, benefiting from new products in Australia and promotional programs in the Philippines, partially offset by declines in Latin America. In convenient meals, volume grew, benefiting from gains in Argentina.

Net revenues increased $23 million (1.1%), due to higher pricing ($302 million, reflecting higher commodity and currency devaluation-driven costs), partially offset by unfavorable currency ($198 million), the divestiture of a Latin American bakery ingredients business in 2002 ($68 million) and lower volume/mix ($13 million).

Operating companies income decreased $98 million (26.6%), due primarily to higher marketing, administration and research costs ($81 million), gains on sales of businesses in 2002 ($72 million), unfavorable currency ($28 million) and the divestiture of a Latin American bakery ingredients business in 2002 ($10 million), partially offset by higher pricing, net of cost increases ($75 million) and the 2002 pre-tax charges for integration costs ($17 million).

2002 compared with 2001

The following discussion compares KFI's operating results for 2002 with 2001.

KFI's volume increased 2.8% due primarily to acquisitions, new product introductions, geographic expansion and marketing programs. This increase in volume was partially offset by the impact of economic weakness in several Latin American countries and the impact of businesses sold.

Net revenues decreased $26 million (0.3%), due primarily to unfavorable currency movements ($271 million), lower volume/mix ($36 million) and revenues of divested businesses ($22 million), partially offset by the impact of acquisitions ($181 million) and higher net pricing ($122 million).

Operating companies income increased $91 million (7.3%), due primarily to gains on sales of businesses ($64 million), favorable margins ($37 million, including productivity savings), lower marketing, administration and research costs ($23 million, including synergy savings) and the impact of acquisitions ($18 million), partially offset by lower volume/mix ($19 million), 2002 integration costs ($17 million) and income of divested businesses ($8 million).

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

Europe, Middle East and Africa: Volume increased 4.8%, driven by acquisitions and volume growth across most markets including Italy, the United Kingdom, Sweden, the Ukraine, the Middle East and Poland, partially offset by declines in Germany and Romania. Snacks volume increased, benefiting from confectionery acquisitions in Russia and Poland, a snacks acquisition in Turkey and new product introductions across the segment. Snacks volume growth was moderated by a decline in Germany, reflecting aggressive competitive activity, and in Romania, due to lower consumer purchasing power. In beverages, volume increased in both coffee and refreshment beverages. Coffee volume grew in most markets, driven by new product introductions, and acquisitions in Romania, Morocco and

Bulgaria. In Germany, coffee volume decreased, reflecting market softness and increased price competition. Refreshment beverages volume also increased, driven by the geographic expansion of powdered beverages and new product introductions. Cheese volume increased with gains in Philadelphia cream cheese, benefiting from advertising and new product introductions. In convenient meals, volume increased, due primarily to higher canned meats volume in Italy against a weak comparison in 2001, and new product introductions of lunch combinations in the United Kingdom.

Net revenues increased $267 million (4.5%), due primarily to favorable currency movements ($197 million), the acquisitions of coffee, confectionery and snacks businesses ($147 million) and higher volume/mix ($22 million), partially offset by lower net pricing ($99 million, due primarily to commodity-driven coffee price declines).

Operating companies income increased $101 million (11.7%), due primarily to favorable margins ($42 million), favorable currency movements ($37 million), higher volume/mix ($19 million) and acquisitions ($16 million), partially offset by higher marketing, administration and research costs.

Latin America and Asia Pacific: Volume increased slightly, as the acquisition of a biscuits business in Australia and gains across numerous markets were partially offset by a volume decline in Argentina due to economic weakness, lower results in China and the impact of businesses sold. In snacks, volume growth was driven by gains in biscuits, benefiting from geographic expansion of cookies and crackers in Latin America, new product introductions and the acquisition of a biscuits business in Australia. Snacks volume growth was partially offset by the negative impact of the continued economic weakness in Argentina and distributor inventory reductions in China. Beverages volume also increased, due primarily to growth in powdered beverages in numerous markets across Latin America and Asia Pacific, which benefited from new product introductions. In grocery, volume declined in both Latin America and Asia Pacific.

Net revenues decreased $293 million (12.6%), due primarily to unfavorable currency movements ($468 million), lower volume/mix ($58 million) and revenues from divested businesses ($22 million), partially offset by higher net pricing ($221 million) and the 2002 acquisition of a biscuits business in Australia ($34 million).

Operating companies income decreased $10 million (2.6%), due primarily to lower volume/mix ($38 million), unfavorable currency movements ($37 million), 2002 integration costs ($17 million) and the operating companies income of disposed businesses, partially offset by gains on sales of businesses ($64 million) and lower marketing, administration and research costs ($31 million, including synergy savings).

Financial Review

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $4.1 billion in 2003, $3.7 billion in 2002 and $3.3 billion in 2001. The increase in 2003 operating cash flows over 2002 was due primarily to a lower use of cash to fund working capital, partially offset by increased pension contributions. The increase in 2002 operating cash flows over 2001 primarily reflected cash flow from increased net earnings.

Net Cash Used in Investing Activities

One element of the growth strategy of the Company is to strengthen its brand portfolios through disciplined programs of selective acquisitions and divestitures. The Company is constantly investigating potential acquisition candidates and from time to time sells businesses that are outside its core categories or that do not meet its growth or profitability targets.

During 2003, 2002 and 2001, net cash used in investing activities was $1.0 billion, $1.1 billion and $1.2 billion, respectively. The decrease in 2003 primarily reflected lower capital expenditures and lower purchases of businesses, partially offset by the reduction in the cash received from the sales of businesses. The decrease in 2002 primarily reflected lower purchases of businesses and an increase in the cash received from the sales of businesses, partially offset by higher capital expenditures related to the integration of Nabisco.

Capital expenditures, which were funded by operating activities, were $1.1 billion, $1.2 billion and $1.1 billion in 2003, 2002 and 2001, respectively. The capital expenditures were primarily to modernize manufacturing facilities, lower cost of production and expand production capacity for growing product lines. In 2004, capital expenditures are currently expected to be at or slightly above 2003 expenditures, including capital expenditures required for the restructuring program announced in January 2004. These expenditures are expected to be funded from operations.

Net Cash Used in Financing Activities

During 2003, net cash of $2.8 billion was used in financing activities, compared with $2.6 billion during 2002. The increase in cash used in 2003 was due primarily to an increase in the Company's Class A share repurchases and an increase in dividend payments, partially offset by a decrease in net debt repayments in 2003 (including amounts due to Altria Group, Inc. and affiliates). During 2003, the Company issued $1.5 billion of third-party long-term debt, the net proceeds of which were used to repay outstanding related party indebtedness. Financing activities included net debt repayments of approximately $1.4 billion in 2003.

During 2002, net cash of $2.6 billion was used in financing activities, compared with $2.1 billion during 2001. The increase in cash used was due primarily to dividends paid during 2002 and repurchases of the Company's Class A common stock. During 2002, Kraft issued $2.5 billion of global bonds and $750 million of floating rate notes, the net proceeds of which were used to repay outstanding related party indebtedness. Financing activities included net debt repayments of approximately $1.5 billion in 2002.

Debt and Liquidity

Financial Reporting Release No. 61 sets forth the views of the Securities and Exchange Commission ("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 amounts due to Altria Group, Inc. and affiliates, was $13.5 billion at December 31, 2003 and $14.4 billion at December 31, 2002. The decrease in total debt is due primarily to the repayment of amounts due to Altria Group, Inc. and affiliates, partially offset by an increase in third-party borrowings. The Company's debt-to-equity ratio was 0.47 at December 31, 2003 and 0.56 at December 31, 2002.

During 2003, the Company repaid the remaining $1, 150 million of the 7.0% long-term notes payable to Altria Group, Inc. and affiliates, as well as the $1,410 million of short-term borrowings reclassified to long-term. In September 2003, Kraft issued $1.5 billion of third-party long-term debt, including $700 million of 5-year notes bearing interest at a rate of 4.0% and $800 million of 10-year notes bearing interest at 5.25%. The net proceeds from the offering were used to repay outstanding related party indebtedness. At December 31, 2003 and 2002, the Company had short-term amounts payable to Altria Group, Inc. of $543 million and $895 million, respectively. Interest on these borrowings is based on the applicable London Interbank Offered Rate.

Credit Ratings: Following a $10.1 billion judgment on March 21, 2003 against Altria Group, Inc.'s domestic tobacco subsidiary, Philip Morris USA Inc., the three major credit rating agencies took a series of ratings actions resulting in the lowering of the Company's short-term and long-term debt ratings, despite the fact the Company is neither a party to, nor has exposure to, this litigation. Moody's lowered the Company's short-term debt rating from "P-1" to "P-2" and its long-term debt rating from "A2 to "A3, with stable outlook. Standard & Poor's lowered the Company's short-term debt rating from "A-1 to "A-2" and its long-term debt rating from "A-" to "BBB+," with stable outlook. Fitch Rating Services lowered the Company's short-term debt rating from "F-1" to "F-2" and its long-term debt rating from "A" to "BBB+," with stable outlook. As a result of the credit rating agencies' actions, the Company temporarily lost access to the commercial paper market, and borrowing costs increased. None of the

Company's debt agreements requires accelerated repayment in the event of a decrease in credit ratings.

Credit Lines: The Company maintains revolving credit facilities that have historically been used to support the issuance of commercial paper. At December 31, 2003, credit lines for the Company and the related activity were as follows:

(in billions of dollars)

Type	Credit Lines	Amount Drawn	Commercial Paper Outstanding
364-day (expires July 2004)	$ 2.5	$ --	$ 0.3
Multi-year (expires July 2006)	2.0		1.9
	$ 4.5	$ --	$ 2.2

The Company's revolving credit facilities, which are for its sole use, require the maintenance of a minimum net worth of $18.2 billion. The Company met this covenant at December 31, 2003 and expects to continue to meet this covenant. The foregoing revolving credit facilities do not include any other financial tests, any credit rating triggers or any provisions that could require the posting of collateral. The multi-year revolving credit facility enables the Company to reclassify short-term debt on a long-term basis. At December 31, 2003, $1.9 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.

In addition to the above, certain international subsidiaries of Kraft maintain uncommitted credit lines to meet the short-term working capital needs of the international businesses. These credit lines, which amounted to approximately $658 million as of December 31, 2003, are for the sole use of the Company's international businesses. Borrowings on these lines were approximately $220 million at December 31, 2003 and 2002.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

The Company has no off-balance sheet arrangements other than the guarantees and contractual obligations that are discussed below.

Guarantees: As discussed in Note 17 to the consolidated financial statements, the Company had third-party guarantees, which are primarily derived from acquisition and divestiture activities, of approximately $38 million at December 31, 2003. Substantially all of these guarantees expire through 2014, with $13 million expiring during 2004. The Company is required to perform under these guarantees in the event that a third party fails to make contractual payments or achieve performance measures. The Company has a liability of $26 million on its consolidated balance sheet at December 31, 2003, relating to these guarantees.

In addition, at December 31, 2003, the Company was contingently liable for $123 million of guarantees related to its own performance. These include surety bonds related to dairy commodity purchases and guarantees related to the payment of customs duties and taxes, and letters of credit.

Guarantees do not have, and are not expected to have, significant impact on the Company's liquidity.

Aggregate Contractual Obligations: The following table summarizes the Company's contractual obligations at December 31, 2003:

(in millions)	Payments Due Total	2004	2005-06	2007-08	2009 and Thereafter
Long-term debt(1)	$ 10,510	$ 775	$ 1,994	$ 2,100	$ 5,641
Operating leases(2)	1,187	307	397	247	236
Purchase obligations(3):					
Inventory and production costs	5,611	2,643	1,162	578	1,228
Other	781	617	111	46	7
	6,392	3,260	1,273	624	1,235
Other long-term liabilities(4)	41		20	11	10
	$ 18,130	$ 4,342	$ 3,684	$ 2,982	$ 7,122

(1) Amounts represent the expected cash payments of the Company's long-term debt and do not include short-term borrowings reclassified as long-term debt, bond premiums or discounts.
(2) Operating leases represent the minimum rental commitments under non-cancelable operating leases. The Company has no significant capital lease obligations.
(3) Purchase obligations for inventory and production costs (such as raw materials, indirect materials and supplies, packaging, co-manufacturing arrangements, storage and distribution) are commitments for projected needs to be utilized in the normal course of business. Other purchase obligations include commitments for marketing, advertising, capital expenditures, information technology and professional services. Arrangements are considered purchase obligations if a contract specified all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice (usually 30 days). Any amounts reflected on the consolidated balance sheet as accounts payable and accrued liabilities are excluded from the table above.
(4) Other long-term liabilities primarily consist of certain specific severance and incentive compensation arrangements. The following long-term liabilities included on the consolidated balance sheet are excluded from the table above: accrued pension, postretirement health care and postemployment costs, income taxes, minority interest, insurance accruals and other accruals. The Company is unable to estimate the timing of the payments for these items. Currently, the Company anticipates making U.S. pension contributions of approximately $70 million in 2004, based on current tax law (as discussed in Note 14 to the consolidated financial statements).

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

Equity and Dividends

In 2002, Kraft's Board of Directors approved the repurchase from time to time of up to $500 million of Kraft's Class A common stock solely to satisfy the obligations of Kraft to provide shares under its 2001 Performance Incentive Plan, 2001 Director Plan for non-employee directors, and other plans where options to purchase Kraft's Class A common stock are granted to employees of the Company. On December 3, 2003, Kraft completed the $500 million Class A common stock repurchase program, acquiring 15,308,458 Class A shares at an average price of $32.66 per share. On December 8, 2003, Kraft commenced repurchasing shares under a

new $700 million Class A common stock repurchase authority approved by its Board of Directors in 2003. Through December 31, 2003, repurchases under the $700 million program were 1,583,600 shares at a cost of $50 million, or $31.57 per share. During 2003, Kraft repurchased 12.5 million shares at a cost of $380 million, and in 2002 Kraft repurchased 4.4 million shares at a cost of $170 million.

Concurrently with the IPO, certain employees of Altria Group, Inc. and its subsidiaries received a one-time grant of options to purchase shares of Kraft's Class A common stock held by Altria Group, Inc. at the IPO price of $31.00 per share. In order to completely satisfy this obligation, Altria Group, Inc. purchased 1.6 million shares of Kraft's Class A common stock in open market transactions during 2002.

During the first quarter of 2003, the Company granted shares of restricted stock and rights to receive shares of stock to eligible employees, giving them in most instances all of the rights of stockholders, except that they may not sell, assign, pledge or otherwise encumber such shares and rights. Such shares and rights are subject to forfeiture if certain employment conditions are not met. During the first quarter of 2003, the Company granted approximately 3.7 million restricted Class A shares to eligible U.S.-based employees and also issued to eligible non-U.S. employees rights to receive approximately 1.6 million Class A equivalent shares. Restrictions on the stock and rights lapse in the first quarter of 2006. The market value per restricted share or right was $36.56 on the date of grant.

The fair value of the shares of restricted stock and rights to receive shares of stock at the date of grant is amortized to expense ratably over the restriction period. The Company recorded compensation expense related to the restricted stock and rights of $57 million for the year ended December 31, 2003. The unamortized portion, which is reported on the consolidated balance sheet as a reduction of earnings reinvested in the business, was $129 million at December 31, 2003.

Dividends paid in 2003 and 2002 were $1,089 million and $936 million, respectively, reflecting a higher dividend rate in 2003, partially offset by lower shares outstanding as a result of Class A share repurchases. During the third quarter of 2003, Kraft's Board of Directors approved a 20% increase in the quarterly dividend rate to $0.18 per share on its Class A and Class B common stock. As a result, the present annualized dividend rate is $0.72 per common share. The declaration of dividends is subject to the discretion of Kraft'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 Kraft's Board of Directors.

Market Risk

The Company operates globally, 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. Derivative financial instruments are used by the Company, principally to reduce exposures to market risks resulting from fluctuations in foreign exchange rates and commodity prices by creating offsetting exposures. The Company is not a party to leveraged derivatives and, by policy, does not use financial instruments for speculative purposes.

Substantially all of the Company's derivative financial instruments are effective as hedges. During the year ended December 31, 2003, ineffectiveness related to cash flow hedges resulted in a gain of $13 million, which was recorded in cost of sales on the consolidated statement of earnings. Ineffectiveness related to cash flow hedges during the year ended December 31, 2002 was not material. At December 31, 2003, the Company was hedging forecasted transactions for periods not exceeding twelve months and expects substantially all amounts reported in accumulated other comprehensive earnings (losses) to be reclassified to the consolidated statement of earnings within the next twelve months.

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, based on the size and location of its businesses, include the euro, Swiss franc, British pound and Canadian dollar. At December 31, 2003 and 2002, the Company had option and forward foreign exchange contracts with aggregate notional amounts of $2,486 million and $575 million, respectively, which are comprised of contracts for the purchase and 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 earnings (losses) until the underlying hedged transactions are reported on the Company's consolidated statement of earnings.

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 and cheese. Commodity futures and options are also used to hedge the price of certain commodities, including milk, coffee, cocoa, wheat, corn, sugar and soybean oil. 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, 2003 and 2002, the Company had net long commodity positions of $255 million and $544 million, respectively. Unrealized gains or losses on net commodity positions were immaterial at December 31, 2003 and 2002. The effective portion of unrealized gains and losses on commodity futures and option contracts is deferred as a component of accumulated other comprehensive earnings (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.

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, 2003 and 2002, 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 12/31/03	Average	High	Low
Instruments sensitive to:				
Foreign currency rates	$ 21	$ 8	$ 21	$ 3
Commodity prices	5	5	7	3

	Fair Value Impact			
(in millions)	At 12/31/03	Average	High	Low
Instruments sensitive to:				
Interest rates	$ 77	$ 97	$ 114	$ 77

	Pre-Tax Earnings Impact			
(in millions)	At 12/31/02	Average	High	Low
Instruments sensitive to:				
Foreign currency rates	$ 5	$ 2	$ 5	$ 1
Commodity prices	4	6	9	4

	Fair Value Impact			
(in millions)	At 12/31/02	Average	High	Low
Instruments sensitive to:				
Interest rates	$ 76	$ 74	$ 76	$ 70

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

See Note 2 to the consolidated financial statements for a discussion of recently adopted accounting standards.

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 ("SEC") 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," "continues," "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. These statements are based on our assumptions and estimates and are subject to risks and uncertainties. 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 and demand for its products, the effects of changing prices for its raw materials and local economic and market 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, to broaden brand portfolios, 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 consummate and successfully integrate acquisitions and to realize the cost savings and improved asset utilization contemplated by its restructuring program. In addition, the Company is subject to the effects of foreign economies, currency movements, fluctuations in levels of customer inventories and credit and other business risks related to its customers operating in a challenging economic and competitive environment. The Company's results are affected by its access to credit markets, borrowing costs and credit ratings, which may in turn be influenced by the credit ratings of Altria Group, Inc. The Company's benefit expense is subject to the investment performance of pension plan assets, interest rates and cost increases for medical benefits offered to employees and retirees. The food industry continues to be subject to recalls if products become adulterated or misbranded, liability if product consumption causes injury, ingredient disclosure and labeling laws and regulations and the possibility that consumers could lose confidence in the safety and quality of certain food products. The food industry is also subject to consumer concerns regarding genetically modified organisms and the health implications of obesity and trans-fatty acids. Developments in any of these areas, which are more fully described elsewhere in this document 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. Any forward-looking statements are made as of the date of the document in which they appear. 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.

[KRAFT LOGO]

Kraft Foods Inc.

Selected Financial Data--Five-Year Review

(in millions of dollars, except per share data)

	2003	2002	2001	2000	1999
Summary of Operations:					
Net revenues	$ 31,010	$ 29,723	$ 29,234	$ 22,922	$ 23,430
Cost of sales	18,828	17,720	17,566	13,959	14,615
Operating income	6,011	6,114	4,884	4,012	3,579
Interest and other debt expense, net	665	847	1,437	597	539
Earnings before income taxes and minority interest	5,346	5,267	3,447	3,415	3,040
Pre-tax profit margin	17.2%	17.7%	11.8%	14.9%	13.0%
Provision for income taxes	1,866	1,869	1,565	1,414	1,287
Net earnings	3,476	3,394	1,882	2,001	1,753
Basic EPS	2.01	1.96	1.17	1.38	1.20
Diluted EPS	2.01	1.96	1.17	1.38	1.20
Dividends declared per share	0.66	0.56	0.26	--	--
Weighted average shares (millions)--Basic	1,727	1,734	1,610	1,455	1,455
Weighted average shares (millions)--Diluted	1,728	1,736	1,610	1,455	1,455
Capital expenditures	1,085	1,184	1,101	906	860
Depreciation	804	709	680	499	491
Property, plant and equipment, net	10,155	9,559	9,109	9,405	6,526
Inventories	3,343	3,382	3,026	3,041	2,563
Total assets	59,285	57,100	55,798	52,071	30,336
Long-term debt	11,591	10,416	8,134	2,695	433
Notes payable to Altria Group, Inc. and affiliates	--	2,560	5,000	21,407	6,602
Total debt	13,462	14,443	16,007	25,826	7,828
Total deferred income taxes	5,175	4,917	4,565	942	789
Shareholders' equity	28,530	25,832	23,478	14,048	13,461
Common dividends declared as a % of Basic EPS	32.8%	28.6%	22.2%	--	--
Common dividends declared as a % of Diluted EPS	32.8%	28.6%	22.2%	--	--
Book value per common share outstanding	16.57	14.92	13.53	9.65	9.25
Market price per Class A common share--high/low	39.40-26.35	43.95-32.50	35.57-29.50	--	--
Closing price of Class A common share at year end	32.22	38.93	34.03	--	--
Price/earnings ratio at year end--Basic	16	20	29	--	--
Price/earnings ratio at year end--Diluted	16	20	29	--	--
Number of common shares outstanding at year end (millions)	1,722	1,731	1,735	1,455	1,455
Number of employees	106,000	109,000	114,000	117,000	71,000

Consolidated Balance Sheets

(in millions of dollars)

At December 31,	2003	2002
Assets		
Cash and cash equivalents	$ 514	$ 215
Receivables (less allowances of $114 and $119)	3,369	3,116
Inventories:		
Raw materials	1,375	1,372
Finished product	1,968	2,010
	3,343	3,382
Deferred income taxes	681	511
Other current assets	217	232
Total current assets	8,124	7,456
Property, plant and equipment, at cost:		
Land and land improvements	407	387
Buildings and building equipment	3,422	3,153
Machinery and equipment	11,293	10,108
Construction in progress	683	802
	15,805	14,450
Less accumulated depreciation	5,650	4,891
	10,155	9,559
Goodwill	25,402	24,911
Other intangible assets, net	11,477	11,509
Prepaid pension assets	3,243	2,814
Other assets	884	851
Total Assets	$ 59,285	$ 57,100
Liabilities		
Short-term borrowings	$ 553	$ 220
Current portion of long-term debt	775	352
Due to Altria Group, Inc. and affiliates	543	895
Accounts payable	2,005	1,939
Accrued liabilities:		
Marketing	1,500	1,474
Employment costs	699	610
Other	1,335	1,316
Income taxes	451	363
Total current liabilities	7,861	7,169
Long-term debt	11,591	10,416
Deferred income taxes	5,856	5,428
Accrued postretirement health care costs	1,894	1,889
Notes payable to Altria Group, Inc. and affiliates		2,560
Other liabilities	3,553	3,806
Total liabilities	30,755	31,268
Contingencies (Note 17)		
Shareholders' Equity		
Class A common stock, no par value (555,000,000 shares issued in 2003 and 2002)		
Class B common stock, no par value (1,180,000,000 shares issued and outstanding)		
Additional paid-in capital	23,704	23,655
Earnings reinvested in the business	7,020	4,814
Accumulated other comprehensive losses (primarily currency translation adjustments)	(1,792)	(2,467)
	28,932	26,002
Less cost of repurchased stock (13,062,876 and 4,381,150 Class A shares)	(402)	(170)

Total shareholders' equity	28,530	25,832
Total Liabilities and Shareholders' Equity	$ 59,285	$ 57,100

See notes to consolidated financial statements.

[KRAFT LOGO]

Kraft Foods Inc.

Consolidated Statements of Earnings

(in millions of dollars, except per share data)

For the years ended December 31,	2003	2002	2001
Net revenues	$ 31,010	$ 29,723	$ 29,234
Cost of sales	18,828	17,720	17,566
Gross profit	12,182	12,003	11,668
Marketing, administration and research costs	6,200	5,709	5,748
Integration costs and a loss on sale of a food factory	(13)	111	82
Asset impairment and exit costs	6	142	
Gains on sales of businesses	(31)	(80)	(8)
Amortization of intangibles	9	7	962
Operating income	6,011	6,114	4,884
Interest and other debt expense, net	665	847	1,437
Earnings before income taxes and minority interest	5,346	5,267	3,447
Provision for income taxes	1,866	1,869	1,565
Earnings before minority interest	3,480	3,398	1,882
Minority interest in earnings, net	4	4	
Net earnings	$ 3,476	$ 3,394	$ 1,882
Per share data:			
Basic earnings per share	$ 2.01	$ 1.96	$ 1.17
Diluted earnings per share	$ 2.01	$ 1.96	$ 1.17

See notes to consolidated financial statements.

Kraft Foods Inc.

Consolidated Statements of Cash Flows

(in millions of dollars)

For the years ended December 31,	2003	2002	2001
Cash Provided By (Used In) Operating Activities			
Net earnings	$ 3,476	$ 3,394	$ 1,882
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	813	716	1,642
Deferred income tax provision	244	278	414

Gains on sales of businesses	(31)	(80)	(8)
Integration costs and a loss on sale of a food factory, net of cash paid	(26)	91	79
Asset impairment and exit costs, net of cash paid	6	128	
Cash effects of changes, net of the effects from acquired and divested companies:			
Receivables, net	(45)	116	23
Inventories	197	(220)	(107)
Accounts payable	(116)	(116)	(73)
Income taxes	(125)	277	74
Amounts due to Altria Group, Inc. and affiliates	169	(244)	138
Other working capital items	(167)	(330)	(290)
Change in pension assets and postretirement liabilities, net	(419)	(217)	(305)
Other	143	(73)	(141)
Net cash provided by operating activities	4,119	3,720	3,328
Cash Provided By (Used In) Investing Activities			
Capital expenditures	(1,085)	(1,184)	(1,101)
Purchases of businesses, net of acquired cash	(98)	(122)	(194)
Proceeds from sales of businesses	96	219	21
Other	38	35	52
Net cash used in investing activities	(1,049)	(1,052)	(1,222)
Cash Provided By (Used In) Financing Activities			
Net issuance (repayment) of short-term borrowings	819	(1,036)	2,505
Long-term debt proceeds	1,577	3,325	4,077
Long-term debt repaid	(491)	(609)	(705)
Repayment of notes payable to Altria Group, Inc. and affiliates	(2,757)	(3,850)	(16,350)
(Decrease) increase in amounts due to Altria Group, Inc. and affiliates	(525)	660	142
Repurchase of Class A common stock	(372)	(170)	
Dividends paid	(1,089)	(936)	(225)
Net proceeds from sale of Class A common stock			8,425
Other	52		
Net cash used in financing activities	(2,786)	(2,616)	(2,131)
Effect of exchange rate changes on cash and cash equivalents	15	1	(4)
Cash and cash equivalents:			
Increase (decrease)	299	53	(29)
Balance at beginning of year	215	162	191
Balance at end of year	$ 514	$ 215	$ 162
Cash paid:			
Interest	$ 642	$ 825	$ 1,433
Income taxes	$ 1,726	$ 1,368	$ 1,058

See notes to consolidated financial statements.

[KRAFT LOGO]

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 Earnings (Losses): Currency Translation Adjustments	Other	Total
Balances, January 1, 2001	$ --	$ 15,230	$ 992	$ (2,138)	$ (36)	$ (2,174)
Comprehensive earnings:						
Net earnings			1,882			
Other comprehensive losses, net of income taxes:						
Currency translation adjustments				(298)		(298)
Additional minimum pension liability					(78)	(78)
Change in fair value of derivatives accounted for as hedges					(18)	(18)
Total other comprehensive losses						
Total comprehensive earnings						

Sale of Class A common stock to public		8,425				
Cash dividends declared ($0.26 per share)			(483)			
Balances, December 31, 2001	--	23,655	2,391	(2,436)	(132)	(2,568)
Comprehensive earnings:						
Net earnings			3,394			
Other comprehensive earnings (losses), net of income taxes:						
Currency translation adjustments				187		187
Additional minimum pension liability					(117)	(117)
Change in fair value of derivatives accounted for as hedges					31	31
Total other comprehensive earnings						
Total comprehensive earnings						
Cash dividends declared ($0.56 per share)			(971)			
Class A common stock repurchased						
Balances, December 31, 2002	--	23,655	4,814	(2,249)	(218)	(2,467)
Comprehensive earnings:						
Net earnings			3,476			
Other comprehensive earnings (losses), net of income taxes:						
Currency translation adjustments				755		755
Additional minimum pension liability					(68)	(68)
Change in fair value of derivatives accounted for as hedges					(12)	(12)
Total other comprehensive earnings						
Total comprehensive earnings						
Exercise of stock options and issuance of other stock awards		49	(129)			
Cash dividends declared ($0.66 per share)			(1,141)			
Class A common stock repurchased						
Balances, December 31, 2003	$ --	$ 23,704	$ 7,020	$ (1,494)	$ (298)	$ (1,792)

	Cost of Repurchased Stock	Total Shareholders' Equity
Balances, January 1, 2001	$ --	$ 14,048
Comprehensive earnings:		
Net earnings		1,882
Other comprehensive losses, net of income taxes:		
Currency translation adjustments		(298)
Additional minimum pension liability		(78)
Change in fair value of derivatives accounted for as hedges		(18)
Total other comprehensive losses		(394)
Total comprehensive earnings		1,488
Sale of Class A common stock to public		8,425
Cash dividends declared ($0.26 per share)		(483)
Balances, December 31, 2001	--	23,478
Comprehensive earnings:		
Net earnings		3,394
Other comprehensive earnings (losses), net of income taxes:		
Currency translation adjustments		187
Additional minimum pension liability		(117)
Change in fair value of derivatives accounted for as hedges		31
Total other comprehensive earnings		101
Total comprehensive earnings		3,495

Cash dividends declared ($0.56 per share)		(971)
Class A common stock repurchased	(170)	(170)
Balances, December 31, 2002	(170)	25,832
Comprehensive earnings:		
Net earnings		3,476
Other comprehensive earnings (losses), net of income taxes:		
Currency translation adjustments		755
Additional minimum pension liability		(68)
Change in fair value of derivatives accounted for as hedges		(12)
Total other comprehensive earnings		675
Total comprehensive earnings		4,151
Exercise of stock options and issuance of other stock awards	148	68
Cash dividends declared ($0.66 per share)		(1,141)
Class A common stock repurchased	(380)	(380)
Balances, December 31, 2003	$ (402)	$ 28,530

See notes to consolidated financial statements.

Kraft Foods Inc.

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. Kraft, through its subsidiaries (Kraft and its subsidiaries are hereinafter 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, Asia Pacific and Middle East and Africa.

Prior to June 13, 2001, the Company was a wholly-owned subsidiary of Altria Group, Inc. 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 Altria Group, Inc., incurred in connection with the acquisition of Nabisco Holdings Corp. ("Nabisco"). After the IPO, Altria Group, Inc. owned 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. At December 31, 2003, Altria Group, Inc. held 97.9% of the combined voting power of the Company's outstanding capital stock and owned approximately 84.6% of the outstanding shares of the Company's capital stock.

Basis of presentation: The consolidated financial statements include Kraft, as well as its wholly-owned and majority-owned subsidiaries. Investments in which the Company exercises significant influence (20%-50% ownership interest) are accounted for under the equity method of accounting. Investments in which the Company has an ownership interest of less than 20%, or does not exercise significant influence, are accounted for with the cost method of accounting. All intercompany transactions and balances between and among Kraft's subsidiaries have been eliminated. Transactions between any of the Company's businesses and Altria Group, Inc. and its affiliates are included in these financial statements.

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 liabilities at the dates of the financial statements and the reported amounts of net revenues and expenses during the reporting periods. Significant estimates and assumptions include, among other things, pension and benefit plan assumptions and income taxes. Actual results could differ from those estimates. The Company's operating subsidiaries report year-end results as of the Saturday closest to the end of each year.

Certain prior years' amounts have been reclassified to conform with the current year's presentation, due primarily to the disclosure of more detailed information on the consolidated balance sheets and the consolidated statements of cash flows, as well as the transfer of Canadian Biscuits and Pet Snacks from the Biscuits, Snacks and Confectionery segment to the Cheese, Meals and Enhancers segment, which contains the Company's other Canadian businesses.

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.

Depreciation, amortization and goodwill valuation: Property, plant and equipment are stated at historical cost and depreciated by the straight-line method over the estimated useful 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.

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." As a result, the Company stopped recording the amortization of goodwill as a charge to earnings as of January 1, 2002. Net earnings and diluted earnings per share ("EPS") would have been as follows had the provisions of the new standards been applied as of January 1, 2001:

(in millions, except per share amounts)	
For the year ended December 31,	2001
Net earnings, as previously reported	$ 1,882
Adjustment for amortization of goodwill	955
Net earnings, as adjusted	2,837
Diluted EPS, as previously reported	$ 1.17
Adjustment for amortization of goodwill	0.59
Diluted EPS, as adjusted	$ 1.76

In addition, the Company is required to conduct an annual review of goodwill and intangible assets for potential impairment. Goodwill impairment testing requires a comparison between the carrying value and fair value of a reportable goodwill asset. If the carrying value exceeds the fair value, goodwill is considered impaired. The amount of impairment loss is measured as the difference between the carrying value and implied fair value of goodwill, which is determined using discounted cash flows. Impairment testing for non-amortizable intangible assets requires a comparison between fair value and carrying value of the intangible asset. If the carrying value exceeds fair value, the intangible asset is considered impaired and is reduced to fair value. In 2003, the Company did not have to record a charge to earnings for an impairment of goodwill or other intangible assets as a result of its annual review.

At December 31, 2003 and 2002, goodwill by reportable segment was as follows:

(in millions)

	2003	2002
Cheese, Meals and Enhancers	$ 8, 834	$ 8, 803
Biscuits, Snacks and Confectionery	8, 963	9, 015
Beverages, Desserts and Cereals	2,143	2,143
Oscar Mayer and Pizza	613	616
Total Kraft Foods North America	20,553	20,577
Europe, Middle East and Africa	4,562	4,082
Latin America and Asia Pacific	287	252
Total Kraft Foods International	4,849	4,334
Total goodwill	$ 25,402	$ 24,911

Intangible assets at December 31,003 and 00 ,were as follows:

(in millions)

	2003		2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizable intangible assets	$ 11,432		$ 11,485	
Amortizable intangible assets	84	$ 39	54	$ 30
Total intangible assets	$ 11,516	$ 39	$ 11,539	$ 30

Non-amortizable intangible assets are substantially comprised of brand names purchased through the Nabisco acquisition. Amortizable intangible assets consist primarily of certain trademark licenses and non-compete agreements. Pre-tax amortization expense for intangible assets was $9 million and $7 million for the years ended December 31, 2003 and 2002, respectively. Amortization expense for each of the next five years is currently estimated to be $10 million or less.

The movement in goodwill and intangible assets from December 31, 2002, is as follows:

(in millions)

	Goodwill	Intangible Assets
Balance at December 31, 2002	$ 24,911	$ 11,539
Changes due to:		
Acquisitions	49	30
Currency	520	(40)
Other	(78)	(13)
Balance at December 31, 2003	$ 25,402	$ 11,516

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 on an undiscounted basis 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.

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 are recorded in marketing, administration and research costs on the consolidated statements of earnings and were not significant for any of the periods presented.

Guarantees: Effective January 1, 2003, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 required the disclosure of certain guarantees existing at December 31, 2002. In addition, Interpretation No. 45 required the recognition of a liability for the fair value of the obligation of qualifying guarantee activities that are initiated or modified after December 31, 2002. Accordingly, the Company has applied the recognition provisions of Interpretation No. 45 to guarantees initiated after December 31, 2002. Adoption of Interpretation No. 45 as of January 1, 2003 did not have a material impact on the Company's consolidated financial statements. See Note 17. Contingencies for a further discussion of guarantees.

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." These standards require that all derivative financial instruments be recorded at fair value on the consolidated balance sheets as either assets or liabilities. Changes in the fair value of derivatives are recorded each period either in accumulated other comprehensive earnings (losses) or in earnings, depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive earnings (losses) are reclassified to the consolidated statement of earnings in the periods in which operating results are

affected by the hedged item. Cash flow hedging instruments are classified in the same manner as the affected hedged item in the consolidated statements of cash flows. 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).

Effective July 1, 2003, the Company adopted SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133. The adoption of SFAS No. 149 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. Collectively, SFAS No. 133, SFAS No. 138 and SFAS No. 149 are referred to as "SFAS No. 133."

Impairment of long-lived assets: The Company reviews long-lived assets, including amortizable 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.

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 Altria Group, Inc. 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 currently be utilized on a separate company basis, are utilized in Altria Group, Inc.'s consolidated federal income tax return, the benefit is recognized in the calculation of the Company's provision for income taxes. Based on the Company's current estimate, this benefit is calculated to be approximately $100 million, $240 million and $220 million for the years ended December 31, 2003, 2002 and 2001, respectively. The Company makes payments to, or is reimbursed by, Altria Group, Inc., for the tax effects resulting from its inclusion in Altria Group, Inc.'s consolidated federal income tax return. Significant judgment is required in determining income tax provisions and in evaluating tax positions. The Company and its subsidiaries establish additional provisions for income taxes when, despite the belief that their tax positions are fully supportable, there remain certain positions that are likely to be challenged and that may not be sustained on review by tax authorities. The Company and its subsidiaries adjust these additional accruals in light of changing facts and circumstances. The consolidated tax provision includes the impact of changes to accruals that are considered appropriate, as well as the related net interest.

Inventories: Inventories are stated at the lower of cost or market. The last-in, first-out ("LIFO") method is used to cost a majority of domestic inventories. The cost of other inventories is principally determined by the average cost method.

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

Revenue recognition: The Company recognizes revenues, net of sales incentives and including shipping and handling charges billed to customers, upon shipment of goods when title and risk of loss pass to customers. Shipping and handling costs are classified as part of cost of sales.

Effective July 1, 2003, the Company adopted Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," which addresses certain aspects of a vendor's accounting for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF Issue No. 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The adoption of EITF Issue No. 00-21 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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 are included in property, plant and equipment on the consolidated balance sheets and amortized on a straight-line basis over the estimated useful lives of the software, which do not exceed five years.

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 did not result in compensation cost for stock options. The market value of restricted stock at date of grant is recorded as compensation expense over the period of restriction.

At December 31, 2003, the Company had stock-based employee compensation plans, which are described more fully in Note 10. Stock Plans. The Company applies the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for stock options. No compensation expense for employee stock options is reflected in net earnings, as all options granted under those plans had an exercise price equal to the market value of the common stock on the date of the grant.

Net earnings, as reported, includes pre-tax compensation expense related to restricted stock and rights to receive shares of stock of $57 million, $4 million and $39 million for the years ended December 31, 2003, 2002 and 2001, respectively. The following table illustrates the effect on net earnings and EPS if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for the years ended December 31, 2003, 2002, and 2001:

(in millions, except per share data)	2003	2002	2001
Net earnings, as reported	$ 3,476	$ 3,394	$ 1,882
Deduct:			
Total stock-based employee compensation expense determined under fair value method for all stock option awards, net of related tax effects	12	78	97
Pro forma net earnings	$ 3,464	$ 3,316	$ 1,785
Earnings per share:			
Basic--as reported	$ 2.01	$ 1.96	$ 1.17
Basic--pro forma	$ 2.01	$ 1.91	$ 1.11
Diluted--as reported	$ 2.01	$ 1.96	$ 1.17
Diluted--pro forma	$ 2.00	$ 1.91	$ 1.11

New accounting pronouncements: Several recent accounting pronouncements not previously discussed became effective during 2003. The adoption of these pronouncements did not have a material impact on the Company's consolidated financial position, results of operations or cash flows. The pronouncements were as follows:

- SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity";

- EITF Issue No. 03-3, "Applicability of EITF Abstracts, Topic No. D-79, 'Accounting for Retroactive Insurance Contracts Purchased by Entities Other Than Insurance Enterprises,' to Claims-Made Insurance Policies";

- EITF Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease";

- SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities"; and

- FASB Interpretation No. 46, "Consolidation of Variable Interest Entities."

Note 3. Related Party Transactions:

Altria Group, Inc.'s subsidiary, Altria Corporate Services, Inc., provides the Company with various services, including planning, legal, treasury, accounting, auditing, insurance, human resources, office of the secretary, corporate affairs, information technology and tax services. Billings for these services, which were based on the cost to Altria Corporate Services, Inc. to provide such services and a management fee, were $318 million, $327 million and $339 million for the years ended December 31, 2003, 2002 and 2001, respectively. These costs were paid to Altria Corporate Services, Inc. monthly. Although the cost of these services cannot be quantified on a stand-alone basis, management has assessed that the billings are reasonable based on the level of support provided by Altria Corporate Services, Inc., and that they reflect all services provided. The cost and nature of the services are reviewed annually by the Company's Audit Committee, which is comprised of independent directors. The effects of these transactions are included in operating cash flows in the Company's consolidated statements of cash flows.

The Company had long-term notes payable to Altria Group, Inc. and its affiliates as follows:

(in millions)		
At December 31,	2003	2002
Notes payable in 2009, interest at 7.0%	$ --	$ 1,150
Short-term due to Altria Group, Inc. and affiliates reclassified as long-term		1,410
	$ --	$ 2,560

During 2003, the Company repaid Altria Group, Inc. the remaining $1,150 million on the 7.0% note as well as the $1,410 million of short-term reclassified to long-term. In addition, at December 31, 2003 and 2002, the Company had short-term amounts payable to Altria Group, Inc. of $543 million and $895 million, respectively. Interest on these borrowings is based on the applicable London Interbank Offered Rate.

The fair values of the Company's short-term amounts due to Altria Group, Inc. and affiliates approximate carrying amounts.

Note 4. Divestitures:

During 2003, the Company sold a European rice business and a branded fresh cheese business in Italy. The aggregate proceeds received from sales of businesses were $96 million, on which the Company recorded pre-tax gains of $31 million.

During 2002, the Company sold several small North American food businesses, some of which were previously classified as businesses held for sale. The net revenues and operating results of the businesses held for sale, which were not significant, were excluded from the Company's consolidated statements of earnings, and no gain or loss was recognized on these sales. In addition, the Company sold its Latin American yeast and industrial bakery ingredients business for approximately $110 million and recorded a pre-tax gain of $69 million. The aggregate proceeds received from sales of businesses were $219 million, on which the Company recorded pre-tax gains of $80 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 pre-tax gains of $8 million.

The operating results of the businesses sold were not material to the Company's consolidated financial position, results of operations or cash flows in any of the periods presented.

Note 5. Acquisitions:

During 2003, the Company acquired a biscuits business in Egypt and trademarks associated with a small U.S.-based natural foods business. The total cost of these and other smaller acquisitions was $98 million.

During 2002, the Company acquired a snacks business in Turkey and a biscuits business in Australia. The total cost of these and other smaller acquisitions was $122 million.

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

Note 6. Inventories:

The cost of approximately 39% and 43% of inventories in 2003 and 2002, respectively, was determined using the LIFO method. The stated LIFO amounts of inventories were approximately $155 million and $215 million higher than the current cost of inventories at December 31, 2003 and 2002, respectively.

Note 7. Short-Term Borrowings and Borrowing Arrangements:

At December 31, 2003 and 2002, the Company had short-term borrowings of $2,453 million and $1,621 million, respectively, consisting principally of commercial paper borrowings with an average year-end interest rate of 1.4% and 1.3%, respectively. Of these amounts, the Company reclassified $1,900 million and $1,401 million, respectively, of the commercial paper borrowings to long-term debt based upon its intent and ability to refinance these borrowings on a long-term basis.

The fair values of the Company's short-term borrowings at December 31, 2003 and 2002, based upon current market interest rates, approximate the amounts disclosed above.

Following a $10.1 billion judgment on March 21, 2003 against Altria Group, Inc.'s domestic tobacco subsidiary, Philip Morris USA Inc., the three major credit rating agencies took a series of ratings actions resulting in the lowering of the Company's short-term and long-term debt ratings, despite the fact the Company is neither a party to, nor has exposure to, this litigation. Moody's lowered the Company's short-term debt rating from "P-1" to "P-2 and its long-term debt rating from "A2" to "A3," with stable outlook. Standard & Poor's lowered the Company's short-term debt rating from "A-1" to "A-2" and its long-term debt rating from "A-" to "BBB+," with stable outlook. Fitch Rating Services lowered the Company's short-term debt rating from "F-1" to "F-2" and its long-term debt rating from "A" to "BBB+," with stable outlook. As a result of the credit rating agencies' actions, the Company temporarily lost access to the commercial paper market, and borrowing costs increased. None of the Company's debt agreements requires accelerated repayment in the event of a decrease in credit ratings.

The Company maintains revolving credit facilities that have historically been used to support the issuance of commercial paper. At December 31, 2003, credit lines for the Company and the related activity were as follows:

(in billions of dollars)

Type	Credit Lines	Amount Drawn	Commercial Paper Outstanding
364-day (expires July 2004)	$ 2.5	$ --	$ 0.3
Multi-year (expires July 2006)	2.0		1.9
	$ 4.5	$ --	$ 2.2

The Company's revolving credit facilities, which are for its sole use, require the maintenance of a minimum net worth of $18.2 billion. The Company met this covenant at December 31, 2003 and expects to continue to meet this covenant. The foregoing revolving credit facilities do not include any other financial tests, any credit rating triggers or any provisions that could require the posting of collateral.

In addition to the above, certain international subsidiaries of the Company maintain uncommitted credit lines to meet the short-term working capital needs of the international businesses. These credit lines, which amounted to approximately $658 million as of December 31, 2003, are for the sole use of the Company's international businesses. Borrowings on these lines amounted to approximately $220 million at December 31, 2003 and 2002.

Note 8. Long-Term Debt:

At December 31, 2003 and 2002, the Company's long-term debt consisted of the following:

(in millions)	2003	2002
Short-term borrowings, reclassified as long-term debt	$ 1,900	$ 1,401
Notes, 4.00% to 7.55% (average effective rate 5.37%), due through 2035	10,256	9,053
7% Debenture (effective rate 11.32%), $200 million face amount, due 2011	157	153
Foreign currency obligations	16	117
Other	37	44
	12,366	10,768
Less current portion of long-term debt	(775)	(352)
	$ 11,591	$ 10,416

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

	(in millions)
2004	$ 775
2005	737
2006	1,257
2007	1,398
2008	702
2009-2013	4,502
Thereafter	1,139

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, was $12,873 million and $11,544 million at December 31, 2003 and 2002, 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. On December 3, 2003, the Company completed a $500 million Class A common stock repurchase program, acquiring 15,308,458 Class A shares at an average price of $32.66 per share. On December 8, 2003, the Company commenced repurchasing shares under a new $700 million Class A common stock repurchase program. Through December 31, 2003, repurchases under the $700 million program were 1,583,600 shares at a cost of $50 million, or $31.57 per share.

Shares of Class A common stock issued, repurchased and outstanding were as follows:

	Shares Issued	Shares Repurchased	Shares Outstanding
Balance at January 1, 2002	555,000,000	--	555,000,000
Repurchase of shares		(4,383,150)	(4,383,150)
Exercise of stock options		2,000	2,000
Balance at December 31, 2002	555,000,000	(4,381,150)	550,618,850
Repurchase of shares		(12,508,908)	(12,508,908)
Exercise of stock options and issuance of other stock awards		3,827,182	3,827,182
Balance at December 31, 2003	555,000,000	(13,062,876)	541,937,124

In addition, 1.18 billion Class B common shares were issued and outstanding at December 31, 2003 and 2002. Altria Group, Inc. holds 276.6 million Class A common shares and all of the Class B common shares at December 31, 2003. 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, Altria Group, Inc. holds 97.9% of the combined voting power of the Company's outstanding capital stock at December 31, 2003. At December 31, 2003, 71,662,879 shares of common stock were reserved for stock options and other stock awards.

Concurrent with the IPO, certain employees of Altria Group, Inc. and its subsidiaries received a one-time grant of options to purchase shares of the Company's Class A common stock held by Altria Group, Inc. at the IPO price of $31.00 per share. In order to completely satisfy this obligation, Altria Group, Inc. purchased 1.6 million shares of the Company's Class A common stock in open market transactions during 2002.

Note 10. Stock Plans:

The Company's Board of Directors and shareholders approved 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. A maximum of 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) became 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) were scheduled to become exercisable based on total shareholder return for the Company's Class A common stock during the three years following the date of the grant, or were to become exercisable five years from the date of the grant. Based on total shareholder return, one-third of these shares became exercisable in June 2002 and one-third will become exercisable in June 2006. The remaining one-third could become exercisable in June 2004 or in June 2006, depending on shareholder return. These options will also expire ten years from the date of the grant. Shares available to be granted under the Plan at December 31, 2003, were 51,317,940.

The Company's Board of Directors and shareholders also approved 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 Altria Group, Inc., or their subsidiaries. Up to 500,000 shares of Class A common stock may be awarded under the Kraft Director Plan. Shares available to be granted under the Kraft Director Plan at December 31, 2003, were 470,705.

Notes to Consolidated Financial Statements

The Company applies the intrinsic value-based methodology in accounting for the various stock plans. Accordingly, no compensation expense has been recognized other than for restricted stock awards.

Stock option activity was as follows for the years ended December 31, 2001, 2002 and 2003:

	Shares Subject to Option	Weighted Average Exercise Price	Options Exercisable
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	--
Options granted	14,030	37.10	
Options exercised	(2,000)	31.00	
Options canceled	(1,490,660)	31.00	
Balance at December 31, 2002	19,291,672	31.00	696,615
Options exercised	(346,868)	31.00	
Options canceled	(663,027)	31.00	
Balance at December 31, 2003	18,281,777	31.00	17,032,740

The following table summarizes the status of the Company's stock options outstanding and exercisable as of December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$30.54 - $39.51	18,281,777	7 years	$ 31.00	17,032,740	$ 31.00

Prior to the IPO, certain employees of the Company participated in Altria Group, Inc.'s stock compensation plans. Altria Group, Inc. does not intend to issue additional Altria Group, Inc. stock compensation to the Company's employees, except for reloads of previously issued options. Altria Group, Inc. accounts for its plans in accordance with the intrinsic value-based method permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," which did not result in compensation cost for stock options.

The Company's employees held options to purchase the following number of shares of Altria Group, Inc. stock: 39,241,651 shares at an average exercise price of $37.25 per share at December 31, 2003; 46,615,162 shares at an average exercise price of $35.78 per share at December 31, 2002;and 57,349,595 shares at an average exercise price of $34.66 per share at December 31, 2001. Of these amounts, the following were exercisable at each date: 39,025,325 at an average exercise price of $37.19 per share at December 31, 2003; 46,231,629 at an average exercise price of $35.69 per share at December 31, 2002; and 44,930,609 at an average exercise price of $31.95 per share at December 31, 2001.

Had compensation cost for stock option awards under the Kraft plans and Altria Group, Inc. plans been determined by using the fair value at the grant date, the Company's net earnings and basic and diluted EPS would have been $3,464 million, $2.01 and $2.00, respectively, for the year ended December 31, 2003; $3,316 million, $1.91 and $1.91, respectively, for the year ended December 31, 2002; and $1,785 million, $1.11 and $1.11, respectively, for the year ended December 31, 2001. 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
2003 Altria Group, Inc.	2.68%	4 years	37.61%	6.04%	$ 8.76
2002 Kraft	4.27	5	28.72	1.41	10.65
2002 Altria Group, Inc.	3.44	5	33.57	4.96	10.02
2001 Kraft	4.81	5	29.70	1.68	9.13
2001 Altria Group, Inc.	4.86	5	33.88	4.78	10.36

During the first quarter of 2003, the Company granted shares of restricted stock and rights to receive shares of stock to eligible employees, giving them in most instances all of the rights of stockholders, except that they may not sell, assign, pledge or otherwise encumber such shares and rights. Such shares and rights are subject to forfeiture if certain employment conditions are not met. During the first quarter of 2003, the Company granted approximately 3.7 million restricted Class A shares to eligible U.S.-based employees and also issued to eligible non-U.S. employees rights to receive approximately 1.6 million Class A equivalent shares. Restrictions on the stock and rights lapse in the first quarter of 2006.The market value per restricted share or right was $36.56 on the date of grant.

The fair value of the shares of restricted stock and rights to receive shares of stock at the date of grant is amortized to expense ratably over the restriction period. The Company recorded compensation expense related to the restricted stock and rights of $57 million for the year ended December 31, 2003. The unamortized portion, which is reported on the consolidated balance sheets as a reduction of earnings reinvested in the business, was $129 million at December 31, 2003.

In addition, certain of the Company's employees held shares of Altria Group, Inc. 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. These shares and rights are subject to forfeiture if certain employment conditions are not met. During 2001, Altria Group, Inc. granted to certain of the Company's U.S. employees restricted stock of 279,120 shares and to certain of the Company's non-U.S. employees rights to receive 31,310 equivalent shares. At December 31, 2003, there were no restrictions on the stock. The fair value of the restricted shares and rights at the date of grant was amortized to expense ratably over the restriction period through a charge from Altria Group, Inc. In 2002 and 2001, the Company recorded compensation expense related to these stock awards of $4 million and $39 million, respectively.

Note 11. Earnings Per Share:

Basic and diluted EPS were calculated using the following for the years ended December 31, 2003, 2002 and 2001:

(in millions)	2003	2002	2001

Net earnings	$ 3,476	$ 3,394	$ 1,882
Weighted average shares for basic EPS	1,727	1,734	1,610
Plus incremental shares from assumed conversions:			
Restricted stock and stock rights	1		
Stock options		2	
Weighted average shares for diluted EPS	1,728	1,736	1,610

For the 2003 computation, 18 million Class A common stock options were excluded from the calculation of weighted average shares for diluted EPS because their effects were antidilutive.

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, 2003, 2002 and 2001:

(in millions)

	2003	2002	2001
Pre-tax earnings:			
United States	$ 3,713	$ 3,692	$ 2,282
Outside United States	1,633	1,575	1,165
Total pre-tax earnings	$ 5,346	$ 5,267	$ 3,447
Provision for income taxes:			
United States federal:			
Current	$ 1,011	$ 825	$ 594
Deferred	153	265	299
	1,164	1,090	893
State and local	151	138	112
Total United States	1,315	1,228	1,005
Outside United States:			
Current	460	628	445
Deferred	91	13	115
Total outside United States	551	641	560
Total provision for income taxes	$ 1,866	$ 1,869	$ 1,565

At December 31, 2003, applicable United States federal income taxes and foreign withholding taxes have not been provided on approximately $3.3 billion of accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested. It is not practical to estimate the amount of additional taxes that might be payable on such undistributed earnings.

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, 2003, 2002 and 2001:

	2003	2002	2001
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	1.8	1.7	2.0
Goodwill amortization			9.4
Other (including reversal of taxes no longer required)	(1.9)	(1.2)	(1.0)
Effective tax rate	34.9%	35.5%	45.4%

Rate differences from foreign operations, which are included in other, above, reduced the Company's effective tax rate by 0.8% in 2003 and 0.4% in 2001. Rate differences from foreign operations had no impact in 2002.

The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities consisted of the following at December 31, 2003 and 2002:

(in millions)	2003	2002
Deferred income tax assets:		
Accrued postretirement and postemployment benefits	$ 809	$ 759
Other	392	519
Total deferred income tax assets	1,201	1,278
Deferred income tax liabilities:		
Trade names	(3,839)	(3,839)
Property, plant and equipment	(1,636)	(1,515)
Prepaid pension costs	(901)	(841)
Total deferred income tax liabilities	(6,376)	(6,195)
Net deferred income tax liabilities	$ (5,175)	$ (4,917)

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 Kraft Foods North America, Inc. ("KFNA") and Kraft Foods International, Inc. ("KFI"). Reportable segments for KFNA are organized and managed principally by product category. 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 operations are organized and managed by geographic location. KFI's segments are Europe, Middle East and Africa; and Latin America and Asia Pacific.

The Company's management uses operating companies income, which is defined as operating income before general corporate expenses and amortization of intangibles, to evaluate segment performance and allocate resources. 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 not included in 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 Note 2. Summary of Significant Accounting Policies.

During the first quarter of 2003, the Company transferred management responsibility of its Canadian Biscuits and Pet Snacks operations from the Biscuits, Snacks and Confectionery segment to the Cheese, Meals and Enhancers segment, which contains the Company's other Canadian businesses. Accordingly, all prior period amounts have been reclassified to reflect the transfer. During January 2004, the Company announced a new global organizational structure, which will result in new segments for financial reporting purposes. Beginning in 2004, the Company's new segments will be U.S. Beverages & Grocery; U.S. Snacks; U.S. Cheese, Canada & North America Foodservice; U.S. Convenient Meals; Europe, Middle East and Africa; and Latin America and Asia Pacific.

Segment data were as follows:

(in millions)

For the Years Ended December 31,	2003	2002	2001
Net revenues:			
Cheese, Meals and Enhancers	$ 9,439	$ 9,172	$ 9,014
Biscuits, Snacks and Confectionery	4,801	4,887	4,789
Beverages, Desserts and Cereals	4,567	4,412	4,237
Oscar Mayer and Pizza	3,100	3,014	2,930
Total Kraft Foods North America	21,907	21,485	20,970
Europe, Middle East and Africa	7,045	6,203	5,936
Latin America and Asia Pacific	2,058	2,035	2,328
Total Kraft Foods International	9,103	8,238	8,264
Net revenues	$ 31,010	$ 29,723	$ 29,234
Earnings before income taxes and minority interest:			
Operating companies income:			
Kraft Foods North America:			
Cheese, Meals and Enhancers	$ 2,230	$ 2,210	$ 2,132
Biscuits, Snacks and Confectionery	887	1,051	933
Beverages, Desserts and Cereals	1,247	1,136	1,192
Oscar Mayer and Pizza	556	556	539
Kraft Foods International:			
Europe, Middle East and Africa	1,012	962	861
Latin America and Asia Pacific	270	368	378
Amortization of intangibles	(9)	(7)	(962)
General corporate expenses	(182)	(162)	(189)
Operating income	6,011	6,114	4,884
Interest and other debt expense, net	(665)	(847)	(1,437)
Earnings before income taxes and minority interest	$ 5,346	$ 5,267	$ 3,447

The Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 12%, 12% and 11% of consolidated net revenues for 2003, 2002 and 2001, respectively. These net revenues occurred primarily in the United States and were across all segments.

As previously noted, the Company's international operations are managed by geographic location. Within its two geographic regions, KFI's brand portfolio spans five core consumer sectors. Net revenues by consumer sector for KFI were as follows:

Consumer Sector

(in millions)

For the Years Ended December 31,	2003	2002	2001

Snacks	$ 3,622	$ 3,179	$ 3,077
Beverages	3,124	2,832	2,900
Cheese	1,302	1,202	1,208
Grocery	741	752	826
Convenient Meals	314	273	253
Total	$ 9,103	$ 8,238	$ 8,264

Items affecting the comparability of the Company's results were as follows:

- Integration Costs and a Loss on Sale of a Food Factory--During 2003, the Company reversed $13 million related to the previously recorded integration charges. During 2002, the Company recorded pre-tax integration-related charges of $115 million to consolidate production lines in North America, close a Kraft facility and for other consolidation programs. In addition, during 2002, the Company reversed $4 million related to the loss on sale of a food factory. 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 lose a North American food factory. These items were included in the operating companies income of the following segments:

(in millions)

For the Years Ended December 31,	2003	2002	2001
Cheese, Meals and Enhancers	$ (10)	$ 30	$ 63
Biscuits, Snacks and Confectionery		1	2
Beverages, Desserts and Cereals	(3)	56	12
Oscar Mayer and Pizza		7	5
Latin America and Asia Pacific		17	
Integration costs and a loss on sale of a food factory	$ (13)	$ 111	$ 82

- Asset Impairment and Exit Costs--During 2003, the Company recorded a pre-tax charge of $6 million for asset impairment and exit costs related to the closure of a Nordic snacks plant. During 2002, the Company recorded a pre-tax charge of $142 million related to employee acceptances under a voluntary retirement program. Approximately 700 employees elected to retire or terminate employment under the program. These charges were included in the

operating companies income of the following segments for the years ended December 31, 2003 and 2002:

(in millions)

	2003	2002
Cheese, Meals and Enhancers		$ 60
Biscuits, Snacks and Confectionery		3
Beverages, Desserts and Cereals		47
Oscar Mayer and Pizza		25
Europe, Middle East and Africa	$ 6	5
Latin America and Asia Pacific		2
Asset impairment and exit costs	$ 6	$ 142

- Gains on Sales of Businesses--During 2003, the Company sold a European rice business and a branded fresh cheese business in Italy for aggregate pre-tax gains of $31 million. These pre-tax gains were included in the operating companies income of the Europe, Middle East and Africa segment. During 2002, the Company sold its Latin American yeast and industrial bakery ingredients business, resulting in a pre-tax gain of $69 million, and several small food businesses, resulting in pre-tax gains of $11 million. These pre-tax gains were included in the operating companies income of the following segments: Biscuits, Snacks and Confectionery, $8 million; and Latin America and Asia Pacific, $72 million.

See Notes 4 and 5, respectively, regarding divestitures and acquisitions.

(in millions)

For the Years Ended December 31,	2003	2002	2001
Depreciation expense:			
Cheese, Meals and Enhancers	$ 206	$ 193	$ 180
Biscuits, Snacks and Confectionery	150	140	135
Beverages, Desserts and Cereals	124	115	113
Oscar Mayer and Pizza	62	58	55
Total Kraft Foods North America	542	506	483
Europe, Middle East and Africa	223	167	158
Latin America and Asia Pacific	39	36	39
Total Kraft Foods International	262	203	197
Total depreciation expense	$ 804	$ 709	$ 680
Capital expenditures:			
Cheese, Meals and Enhancers	$ 226	$ 268	$ 266
Biscuits, Snacks and Confectionery	193	213	162
Beverages, Desserts and Cereals	184	194	202
Oscar Mayer and Pizza	110	133	131
Total Kraft Foods North America	713	808	761
Europe, Middle East and Africa	276	265	231
Latin America and Asia Pacific	96	111	109
Total Kraft Foods International	372	376	340
Total capital expenditures	$ 1,085	$ 1,184	$ 1,101

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

(in millions)

For the Years Ended December 31,	2003	2002	2001
Net revenues:			
United States	$ 19,545	$ 19,395	$ 19,193
Europe	6,752	5,908	5,667
Other	4,713	4,420	4,374
Total net revenues	$ 31,010	$ 29,723	$ 29,234
Total assets:			
United States	$ 44,674	$ 44,406	$ 44,420
Europe	10,114	8,738	7,362

Other	4,497	3,956	4,016
Total assets	$ 59,285	$ 57,100	$ 55,798
Long-lived assets:			
United States	$ 6,451	$ 6,382	$ 6,360
Europe	2,757	2,432	2,132
Other	1,831	1,596	1,668
Total long-lived assets	$ 11,039	$ 10,410	$ 10,160

Note 14. Benefit Plans:

In December 2003, the FASB issued a revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." In 2003, the Company adopted the revised disclosure requirements of this pronouncement, except for certain disclosures about non-U.S. plans and estimated future benefit payments which are not required until 2004.

The Company sponsors 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.

The plan assets and benefit obligations of the Company's U.S. pension plans are measured at December 31 of each year.

Pension Plans

Obligations and Funded Status

The benefit obligations, plan assets and funded status of the Company's pension plans at December 31, 2003 and 2002, were as follows:

(in millions)	U.S. Plans		Non-U.S. Plans	
	2003	2002	2003	2002
Benefit obligation at January 1	$ 5,245	$ 4,964	$ 2,317	$ 2,021
Service cost	135	120	58	49
Interest cost	338	339	136	120
Benefits paid	(398)	(624)	(132)	(115)
Settlements	29	127		
Actuarial losses	199	367	124	85
Currency			392	144
Other	(2)	(48)	15	13
Benefit obligation at December 31	5,546	5,245	2,910	2,317
Fair value of plan assets at January 1	4,965	6,359	1,337	1,329
Actual return on plan assets	1,038	(803)	204	(56)
Contributions	219	26	209	81
Benefits paid	(414)	(636)	(100)	(87)
Currency			216	70
Actuarial (losses) gains	(6)	19		
Fair value of plan assets at				

December 31	5,802	4,965	1,866	1,337
Funded status (plan assets in excess of (less than) benefit obligations) at December 31	256	(280)	(1,044)	(980)
Unrecognized actuarial losses	2,292	2,558	848	682
Unrecognized prior service cost	23	13	55	50
Additional minimum liability	(85)	(71)	(367)	(288)
Unrecognized net transition obligation			7	7
Net prepaid pension asset (liability) recognized	$ 2,486	$ 2,220	$ (501)	$ (529)

The combined U.S. and non-U.S. pension plans resulted in a net prepaid pension asset of $1,985 million and $1,691 million at December 31, 2003 and 2002, respectively. These amounts were recognized in the Company's consolidated balance sheets at December 31, 2003 and 2002, as prepaid pension assets of $3,243 million and $2,814 million, respectively, for those plans in which plan assets exceeded their accumulated benefit obligations, and as other liabilities of $1,258 million and $1,123 million, respectively, for plans in which the accumulated benefit obligations exceeded their plan assets.

For U.S. and non-U.S. pension plans, the change in the additional minimum liability in 2003 and 2002 was as follows:

	(in millions)			
	U.S. Plans		Non-U.S. Plans	
	2003	2002	2003	2002
Increase in minimum liability included in other comprehensive earnings (losses), net of tax	$ (9)	$ (22)	$ (59)	$ (95)

The combined accumulated benefit obligation for the U.S. pension plans was $4,898 million and $4,562 million at December 31, 2003 and 2002, respectively.

At December 31, 2003 and 2002, certain of the Company's U.S. pension plans were underfunded, with projected benefit obligations, accumulated benefit obligations and the fair value of plan assets of $261 million, $208 million and $14 million, respectively, in 2003, and $269 million, $217 million and $45 million, respectively, in 2002. The majority of these relate to plans for salaried employees that cannot be funded under IRS regulations. 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 $1,648 million, $1,532 million and $588 million, respectively, as of December 31, 2003, and $1,375 million, $1,250 million and $424 million, respectively, as of December 31, 2002.

The following weighted-average assumptions were used to determine the Company's benefit obligations under the plans at December 31:

	U.S. Plans		Non-U.S. Plans	
	2003	2002	2003	2002
Discount rate	6.25%	6.50%	5.41%	5.56%
Rate of compensation increase	4.00	4.00	3.11	3.12

[KRAFT LOGO]

Components of Net Periodic Benefit Cost

Net periodic pension (income) cost consisted of the following for the years ended December 31, 2003, 2002 and 2001:

(in millions)	U.S. Plans			Non-U.S. Plans		
	2003	2002	2001	2003	2002	2001
Service cost	$ 135	$ 120	$ 107	$ 58	$ 49	$ 45
Interest cost	338	339	339	136	120	112
Expected return on plan assets	(587)	(631)	(648)	(146)	(134)	(126)
Amortization:						
Unrecognized net loss (gain) from experience differences	15	8	(21)	18	5	(1)
Prior service cost	2	1	8	8	7	5
Other expense (income)	51	130	(12)			
Net pension (income) cost	$ (46)	$ (33)	$ (227)	$ 74	$ 47	$ 35

Retiring employees elected lump-sum payments, resulting in settlement losses of $51 million and $21 million in 2003 and 2002, respectively, and settlement gains of $12 million in 2001.In addition, during 2002, certain salaried employees in the United States left the Company under a voluntary early retirement program instituted in 2001. This resulted in special termination benefits and curtailment and settlement losses of $109 million in 2002.

The following weighted-average assumptions were used to determine the Company's net pension cost for the year ended December 31:

	U.S. Plans			Non-U.S. Plans		
	2003	2002	2001	2003	2002	2001
Discount rate	6.50%	7.00%	7.75%	5.56%	5.80%	5.88%
Expected rate of return on plan assets	9.00	9.00	9.00	8.41	8.49	8.51
Rate of compensation increase	4.00	4.50	4.50	3.12	3.36	3.55

The Company's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

Kraft 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 $84 million, $64 million and $63 million in 2003, 2002 and 2001, respectively.

Plan Assets

The Company's U.S. pension plan asset allocation at December 31, 2003 and 2002, was as follows:

U.S. Plans Asset Category	Percentage of Fair Value of Plan Assets at December 31 2003	2002
Equity securities	70%	63%
Debt securities	26	32
Real estate	1	1
Other	3	4
Total	100%	100%

The Company's investment strategy is based on an expectation that equity securities will outperform debt securities over the long term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70%/30% allocation between equity and debt securities. The strategy utilizes indexed U.S. equity securities and actively managed investment grade debt securities (which constitute 80% or more of debt securities) with lesser allocations to high yield and international debt securities.

The Company attempts to mitigate investment risk by rebalancing between equity and debt asset classes as the Company's contributions and monthly benefit payments are made.

The Company presently plans to make contributions, to the extent that they are tax deductible, in order to maintain plan assets in excess of the accumulated benefit obligation of its funded U.S. plans. Currently, the Company anticipates making contributions of approximately $70 million in 2004, based on current tax law. However, this estimate is subject to change as a result of current tax proposals before Congress, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets.

Postretirement Benefit Plans

Net postretirement health care costs consisted of the following for the years ended December 31, 2003, 2002 and 2001:

(in millions)	2003	2002	2001
Service cost	$ 41	$ 32	$ 34
Interest cost	173	168	168
Amortization:			
Unrecognized net loss from experience differences	40	21	5
Unrecognized prior service cost	(25)	(20)	(8)
Other expense		16	
Net postretirement health care costs	$ 229	$ 217	$ 199

During 2002, certain salaried employees in the United States left the Company under a voluntary early retirement program instituted in 2001. This resulted in curtailment losses of $16 million in 2002, which are included in other expense, above.

In December 2003, the United States enacted into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Act establishes a prescription drug benefit under Medicare, known as "Medicare Part D", and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.

In January 2004, the FASB issued FASB Staff Position No.106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP 106-1"). The Company has elected to defer accounting for the effects of the Act, as permitted by FSP 106-1. Therefore, in accordance with FSP 106-1, the Company's accumulated postretirement benefit obligation and net postretirement health care costs included in the consolidated financial statements and accompanying notes do not reflect the effects of the Act on the plans. Specific authoritative guidance on the accounting for the federal subsidy is pending, and that guidance, when issued, could require the Company to change previously reported information.

The following weighted-average assumptions were used to determine the Company's net postretirement cost for the years ended December 31:

	U.S. Plans			Canadian Plans		
	2003	2002	2001	2003	2002	2001
Discount rate	6.50%	7.00%	7.75%	6.75%	6.75%	7.00%
Health care cost trend rate	8.00	6.20	6.80	7.00	8.00	9.00

The Company's postretirement health care plans are not funded. The changes in the accumulated benefit obligation and net amount accrued at December 31, 2003 and 2002, were as follows:

	(in millions)	
	2003	2002
Accumulated postretirement benefit obligation at January 1	$ 2, 712	$ 2,436
Service cost	41	32
Interest cost	173	168
Benefits paid	(189)	(199)
Curtailments		21
Plan amendments	(28)	(164)
Currency	18	
Assumption changes	174	193
Actuarial losses	54	225
Accumulated postretirement benefit obligation at December 31	2,955	2,712
Unrecognized actuarial losses	(1,064)	(848)
Unrecognized prior service cost	202	197
Accrued postretirement health care costs	$ 2,093	$ 2,061

The current portion of the Company's accrued postretirement health care costs of $199 million and $172 million at December 31,2003 and 2002, respectively, are included in other accrued liabilities on the consolidated balance sheets.

The following weighted-average assumptions were used to determine the Company's postretirement benefit obligations at December 31:

	U.S. Plans		Canadian Plans	
	2003	2002	2003	2002

Discount rate	6.25%	6.50%	6.50%	6.75%
Health care cost trend rate assumed for next year	10.00	8.00	8.00	7.00
Ultimate trend rate	5.00	5.00	5.00	4.00
Year that the rate reaches the ultimate trend rate	2006	2006	2010	2006

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of December 31, 2003:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	14.0%	(11.2)%
Effect on postretirement benefit obligation	10.2	(8.5)

Postemployment Benefit Plans

Kraft 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, 2003, 2002 and 2001:

(in millions)	2003	2002	2001
Service cost	$ 10	$ 19	$ 20
Amortization of unrecognized net gains	(5)	(7)	(8)
Other expense	1	23	
Net postemployment costs	$ 6	$ 35	$ 12

During 2002, certain salaried employees in the United States left the Company under voluntary early retirement and integration programs. These programs resulted in incremental postemployment costs of $23 million, which are included in other expense, above.

The Company's postemployment plans are not funded. The changes in the benefit obligations of the plans at December 31, 2003 and 2002, were as follows:

(in millions)	2003	2002
Accumulated benefit obligation at January 1	$ 295	$ 520
Service cost	10	19

Benefits paid	(106)	(141)
Actuarial (gains) losses	42	(103)
Accumulated benefit obligation at December 31	241	295
Unrecognized experience gains	56	112
Accrued postemployment costs	$ 297	$ 407

The accumulated benefit obligation was determined using an assumed ultimate annual turnover rate of 0.3% in 2003 and 2002, assumed compensation cost increases of 4.0% in 2003 and 2002, 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,	2003	2002	2001
Research and development expense	$ 380	$ 360	$ 358
Advertising expense	$ 1,176	$ 1,145	$ 1,190
Interest and other debt expense, net:			
Interest expense, Altria Group, Inc. and affiliates	$ 31	$ 243	$ 1,103
Interest expense, external debt	647	611	349
Interest income	(13)	(7)	(15)
	$ 665	$ 847	$ 1,437
Rent expense	$ 452	$ 437	$ 372

Minimum rental commitments under non-cancelable operating leases in effect at December 31, 2003, were as follows:

(in millions)

2004	$ 307
2005	227
2006	170
2007	134
2008	113
Thereafter	236
	$ 1,187

Note 16. Financial Instruments:

Derivative financial instruments: The Company operates globally, 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. Derivative financial instruments are used by the Company, principally to reduce exposures to market risks resulting from fluctuations in foreign exchange rates and commodity prices by creating offsetting exposures. The Company is not a party to leveraged derivatives and, by policy, does not use financial instruments for speculative purposes. 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 formally documents the nature of 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 the forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction will occur. If it was deemed probable that the forecasted transaction will not occur, the gain or loss would be recognized in earnings currently.

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. Substantially all of the Company's derivative financial instruments are effective as hedges. The fair value of all derivative financial instruments has been calculated based on market quotes. The primary currencies to which the Company is exposed, based on the size and location of its businesses, include the euro, Swiss franc, British pound and Canadian dollar. At December 31, 2003 and 2002, the Company had option and forward foreign exchange contracts with aggregate notional amounts of $2,486 million and $575 million, respectively, which are comprised of contracts for the purchase and 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 earnings (losses) until the underlying hedged transactions are reported on the Company's consolidated statement of earnings.

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 and cheese. Commodity futures and options are also used to hedge the price of certain commodities, including milk, coffee, cocoa, wheat, corn, sugar and soybean oil. 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, 2003 and 2002, the Company had net long commodity positions of $255 million and $544 million, respectively. Unrealized gains or losses on net commodity positions were immaterial at December 31, 2003 and 2002. The effective portion of unrealized gains and losses on commodity futures and option contracts is deferred as a component of accumulated other comprehensive earnings (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.

Derivative gains or losses reported in accumulated other comprehensive earnings (losses) are a result of qualifying hedging activity. Transfers of these gains or losses from accumulated other comprehensive earnings (losses) to earnings are offset by corresponding gains or losses on the underlying hedged items. During the year ended December 31, 2003, ineffectiveness related to cash flow hedges was a gain of $13 million, which was recorded in cost of sales on the consolidated statement of earnings. Ineffectiveness related to cash flow hedges during the year ended December 31, 2002 was not material. At December 31, 2003, the Company was hedging forecasted transactions for periods not exceeding twelve months and expects substantially all amounts reported in accumulated other comprehensive earnings (losses) to be reclassified to the consolidated statement of earnings within the next twelve months.

Hedging activity affected accumulated other comprehensive earnings (losses), net of income taxes, during the years ended December 31, 2003, 2002 and 2001, as follows:

(in millions)

	2003	2002	2001

Gain (loss) as of January 1	$ 13	$ (18)	$ --
Derivative (gains) losses transferred to earnings	(17)	21	15
Change in fair value	5	10	(33)
Gain (loss) at December 31	$ 1	$ 13	$ (18)

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, 2003.

Fair value: The aggregate fair value, based on market quotes, of the Company's third-party debt at December 31, 2003, was $13,426 million as compared with its carrying value of $12, 919 million. The aggregate fair value of the Company's third-party debt at December 31, 2002, was $11,764 million as compared with its carrying value of $10,988 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 Altria Group, Inc. and its affiliates were $2,764 million and $2,560 million, respectively, at December 31, 2002.

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. 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.

Guarantees: At December 31, 2003, the Company's third-party guarantees, which are primarily derived from acquisition and divestiture activities, approximated $38 million. Substantially all of these guarantees expire through 2014, with $13 million expiring during 2004. The Company is required to perform under these guarantees in the event that a third party fails to make contractual payments or achieve performance measures. The Company has a liability of $26 million on its consolidated balance sheet at December 31, 2003, relating to these guarantees.

Note 18. Subsequent Event:

In January 2004, the Company announced a three-year restructuring program with the objective to leverage the Company's global scale, realign and lower the cost structure and optimize capacity utilization. As part of this program, the Company anticipates the exit or losing of up to 20 plants and the elimination of approximately six thousand positions. Over the next three years, the Company expects to incur up to $1.2 billion in pre-tax charges, reflecting asset disposals, severance and other implementation costs, including an estimated range of $750 million to $800 million in 2004. Approximately one-half of the pre-tax charges are expected to require cash payments.

Note 19. Quarterly Financial Data (Unaudited):

(in millions, except per share data)	2003 Quarters			
	First	Second	Third	Fourth
Net revenues	$ 7,359	$ 7,841	$ 7,480	$ 8,330
Gross profit	$ 3,010	$ 3,146	$ 2,921	$ 3,105
Net earnings	$ 848	$ 949	$ 810	$ 869

Weighted average shares for diluted EPS	1,730	1,728	1,728	1,723
Per share data:				
Basic EPS	$ 0.49	$ 0.55	$ 0.47	$ 0.50
Diluted EPS	$ 0.49	$ 0.55	$ 0.47	$ 0.50
Dividends declared	$ 0.15	$ 0.15	$ 0.18	$ 0.18
Market price--high	$ 39.40	$ 33.96	$ 32.79	$ 32.50
--low	$ 26.35	$ 27.76	$ 27.60	$ 28.50

(in millions, except per share data)	2002 Quarters			
	First	Second	Third	Fourth
Net revenues	$ 7,147	$ 7,513	$ 7,216	$ 7,847
Gross profit	$ 2,864	$ 3,127	$ 2,971	$ 3,041
Net earnings	$ 693	$ 901	$ 869	$ 931
Weighted average shares for diluted EPS	1,737	1,738	1,737	1,734
Per share data:				
Basic EPS	$ 0.40	$ 0.52	$ 0.50	$ 0.54
Diluted EPS	$ 0.40	$ 0.52	$ 0.50	$ 0.54
Dividends declared	$ 0.13	$ 0.13	$ 0.15	$ 0.15
Market price--high	$ 39.70	$ 43.95	$ 41.70	$ 41.30
--low	$ 32.50	$ 38.32	$ 33.87	$ 36.12

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.

During 2003 and 2002, the Company recorded the following pre-tax charges or (gains):

(in millions)	2003 Quarters			
	First	Second	Third	Fourth
Asset impairment and exit costs			$ 6	
Integration costs				$ (13)
Gains on sales of businesses			(23)	(8)
	$ --	$ --	$ (17)	$ (21)

(in millions)	2002 Quarters			
	First	Second	Third	Fourth
Asset impairment and exit costs	$ 142			
Integration costs and a loss on sale of a food factory	27	$ 92		$ (8)
Gains on sales				

of businesses		(3)		(77)
	$ 169	$ 89	$ --	$ (85)

The principal stock exchange, on which the Company's Class A common stock is listed, is the New York Stock Exchange. At January 30, 2004, there were approximately 2,400 holders of record of the Company's Class A common stock.

Kraft Foods Inc.

Report of Independent Auditors

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, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, 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.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2002, the Company adopted Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets."

PricewaterhouseCoopers LLP

Chicago, Illinois
January 23, 2004

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 auditors, 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

KRAFT FOODS INC. SUBSIDIARIES

Certain active subsidiaries of the Company and their subsidiaries as of December 31, 2003, 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
KRAFT FOODS INC.	
152999 Canada Inc.	Canada
3072440 Nova Scotia Company	Canada
AB Kraft Foods Lietuva	Lithuania
Aberdare Developments Ltd.	British Virgin Islands
AGF Pack, Inc.	Japan
AGF SP, Inc	Japan
Airco IHC, Inc.	Delaware
Ajinomoto General Foods, Inc.	Japan
Alimentos Especiales, Sociedad Anonima	Guatemala
Balance Bar Company	Delaware
Beijing Nabisco Food Company Ltd.	China
Biscuits Delacre B.V.	Netherlands
Boca Foods Company	Delaware
Cafe Grand 'Mere S.A.S.	France
Callard & Bowser-Suchard, Inc.	Delaware
Capri Sun, Inc.	Delaware
Carlton Lebensmittelvertriebs GmbH	Germany
Carnes y Conservas Espanolas, S.A.	Spain
Churny Company, Inc.	Delaware
Closed Joint Stock Company Kraft Foods Rus	Russia
Closed Joint Stock Company Kraft Foods Ukraine	Ukraine
Compania Venezolana de Conservas C.A.	Venezuela
Consiber, S.A.	Spain
Convenco Holding C.A.	Venezuela
Corporativo Kraft, S. de R.L. de C.V.	Mexico
Cote d'Or Italia S.r.l.	Italy
Croky Chips B.V.	Netherlands
Deluxestar Limited	United Kingdom
Dong Suh Foods Corporation	Korea
Dong Suh Oil & Fats Co., Ltd.	Korea
El Gallito Industrial, S.A.	Costa Rica
Estrella A/S	Denmark
Family Nutrition Company S.A.E.	Egypt
Fattorie Osella S.p.A.	Italy
Finalrealm Ltd.	United Kingdom
Fleischmann Nabisco Uruguay S.A.	Uruguay
Franklin Baker Company of the Philippines	Philippines
Freezer Queen Foods (Canada) Limited	Canada
Gelatinas Ecuatoriana S.A.	Ecuador

Gellatas United Biscuits, S.A.	Spain
General Foods Foreign Sales Corporation	U.S. Virgin Islands
Grundstucksgemeinschaft Kraft Foods	Germany
HAG-Coffex SNC	France

Hervin Holdings, Inc.	Delaware
Industrias Alimenticias Maguary Ltda.	Brazil
Jacobs Suchard Alimentos do Brasil Ltda.	Brazil
KFI-USLLC I	Delaware
KFI-USLLC V	Delaware
KFI-USLLC VII	Delaware
KFI-USLLC IX	Delaware
KFI-USLLC XI	Delaware
KFI-USLLC XVII	Delaware
Koninklijke Verkade N.V.	Netherlands
KP Ireland Ltd.	Ireland
Kraft Canada Inc.	Canada
Kraft Food Ingredients Corp.	Delaware
Kraft Foods (Australia) Limited	Australia
Kraft Foods (China) Company Limited	China
Kraft Foods (Middle East & Africa) Ltd.	United Kingdom
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 Argentina S.A.	Argentina
Kraft Foods AS	Norway
Kraft Foods Asia Pacific Holding LLC	Delaware
Kraft Foods Belgium S.A.	Belgium
Kraft Foods Brasil S.A.	Brazil
Kraft Foods Bulgaria AD	Bulgaria
Kraft Foods Caribbean Sales Corp.	Delaware
Kraft Foods Central & Eastern Europe Service BV	Netherlands
Kraft Foods Chile S.A.	Chile
Kraft Foods Colombia S.A.	Colombia
Kraft Foods Costa Rica, S.A.	Costa Rica
Kraft Foods CR s.r.o.	Czechoslovakia
Kraft Foods Danmark ApS	Denmark
Kraft Foods Danmark Holding A/S	Denmark
Kraft Foods de Mexico, S. de R.L. de C.V.	Mexico
Kraft Foods Deutschland GmbH	Germany
Kraft Foods Deutschland Holding GmbH	Germany
Kraft Foods Dominicana, S.A.	Dominican Republic
Kraft Foods Ecuador S.A.	Ecuador
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 Holland Holding B.V.	Netherlands
Kraft Foods Honduras, S.A.	Honduras
Kraft Foods Hors Domicile	France
Kraft Foods Hungaria Kft.	Hungary
Kraft Foods Inc.	Virginia
Kraft Foods International (EU) Ltd.	United Kingdom
Kraft Foods International, Inc.	Delaware
Kraft Foods Ireland Limited	Ireland
Kraft Foods Italia S.p.A.	Italy
Kraft Foods Jamaica Limited	Jamaica
Kraft Foods Jaya (Malaysia) Sdn Bhd	Malaysia
Kraft Foods Latin America Holding LLC	Delaware
Kraft Foods Laverune SNC	France
Kraft Foods Limited	Australia
Kraft Foods Limited (Asia)	Hong Kong
Kraft Foods Manufacturing Midwest, Inc.	Delaware
Kraft Foods Manufacturing West, Inc.	Delaware
Kraft Foods Maroc SA	Morocco
Kraft Foods Mexico Holding I B.V.	Netherlands

Kraft Foods Mexico Holding II B.V.	Netherlands
Kraft Foods Namur S.A.	Belgium
Kraft Foods Nederland B.V.	Netherlands
Kraft Foods Nicaragua S.A.	Nicaragua
Kraft Foods Norge AS	Norway
Kraft Foods North America, Inc.	Delaware
Kraft Foods Oesterreich GmbH	Austria
Kraft Foods Panama, S.A.	Panama
Kraft Foods Peru S.A.	Peru
Kraft Foods Polska Sp.z o.o.	Poland
Kraft Foods Portugal Produtos Alimentares Lda.	Portugal
Kraft Foods Puerto Rico Holding LLC	Delaware
Kraft Foods R & D, Inc.	Delaware
Kraft Foods Romania SA	Romania
Kraft Foods Schweiz AG	Switzerland
Kraft Foods Schweiz Holding AG	Switzerland
Kraft Foods Slovakia, a.s.	Slovak Republic
Kraft Foods South Africa Pty Ltd.	South Africa
Kraft Foods Strasbourg SNC	France
Kraft Foods Sverige AB	Sweden
Kraft Foods Sverige Holding AB	Sweden
Kraft Foods Taiwan Holdings LLC	Delaware
Kraft Foods Taiwan Limited	Taiwan
Kraft Foods UK Ltd.	United Kingdom
Kraft Foods Venezuela, C.A.	Venezuela
Kraft Gida Sanayi Ve Ticaret Anonim Sirketi	Turkey
Kraft Guangtong Food Company, Limited	China

Kraft Jacobs Suchard (Australia) Pty Ltd.	Australia
Kraft Japan, K.K.	Japan
Kraft Korea Inc.	Korea
Kraft Pizza Company	Delaware
Kraft Tianmei Food (Tianjin) Co., Ltd.	China
Krema Limited	Ireland
KTL S. de R.L. de C.V.	Mexico
Landers y Cia. S.A.	Colombia
Lanes Biscuits Pty Ltd	Australia
Lanes Food (Australia) Pty Ltd	Australia
Lanes Food Group Limited	New Zealand
Limited Liability Company Kraft Foods	Russia
LLC (000) Kraft Foods Sales and Marketing	Russia
Lowney Inc.	Canada
Marsa Kraft Foods Sabanci Gida Sanayi ve Ticaret A.S. .	Turkey
Mirabell Salzburger Confiserie-Und Bisquit GmbH	Austria
Nabisco (Thailand) Limited	Thailand
Nabisco Arabia Co. Ltd.	Saudi Arabia
Nabisco Caribbean Export, Inc.	Delaware
Nabisco de Nicaragua, S.A.	Nicaragua
Nabisco Euro Holdings Ltd.	Cayman Islands
Nabisco Food (Suzhou) Co. Ltd.	China
Nabisco Group Ltd.	Delaware
Nabisco, Inc. Foreign Sales Corporation	U.S. Virgin Islands
Nabisco Inversiones S.R.L.	Argentina
Nabisco Investments, Inc.	Delaware
Nabisco Philippines, Inc.	Philippines
Nabisco Royal de Honduras, S.A.	Honduras
Nabisco Taiwan Corporation	Taiwan
NISA Holdings LLC	Delaware
N.V. Biscuits Delacre S.A.	Belgium
N.V. Westimex Belgium S.A.	Belgium
Oy Kraft Foods Finland Ab	Finland
Pavlides S.A. Chocolate Manufacturers	Greece
Phenix Leasing Corporation	Delaware
Phenix Management Corporation	Delaware
Philip Morris (China) Investments Co., Ltd.	China
Productos Alimenticios Pilar Ltda.	Brazil

Productos Kraft, S. de R.L.de C.V.	Mexico
Productos y Alimentos, S.A. de C.V.	El Salvador
P.T. Kraft Ultrajaya Indonesia	Indonesia
PT Nabisco Foods	Indonesia
Regentrealm Limited	United Kingdom
Ross Young's Holdings Limited	United Kingdom
Runecorp Limited	United Kingdom
Seven Seas Foods, Inc.	Delaware
Stella D'oro Biscuit Co., Inc.	New York
Suchard Limited	United Kingdom

Suchard Schokolade Ges. MbH	Austria
Taloca AG	Switzerland
Taloca Cafe Ltda	Brazil
Taloca y Cia Ltda.	Colombia
Tevalca Holding C.A.	Venezuela
The Hervin Company	Oregon
U. B. Europe, Middle East and Africa Trading, S.A.	Spain
UB China Ltd.	China
UB Finance B.V.	Netherlands
UB Foods US Limited	United Kingdom
UB Group Limited	United Kingdom
UB Humber Limited	United Kingdom
UB International Sales Limited	United Kingdom
UB Investment plc	United Kingdom
UB Investments (Netherlands) B.V.	Netherlands
UB Limited	United Kingdom
UB Overseas Limited	United Kingdom
United Biscuits (East China) Limited	China
United Biscuits (Holdings) Limited	United Kingdom
United Biscuits (UK) Limited	United Kingdom
United Biscuits Asia Pacific Limited	Hong Kong
United Biscuits Finance plc	United Kingdom
United Biscuits France S.A.S.	France
United Biscuits Iberia Limitada	Portugal
United Biscuits Iberia, S.L.	Spain
United Biscuits Industries S.A.S.	France
United Biscuits Tunisia S.A.	Tunisia
Vict. Th. Engwall & Co., Inc.	Delaware
Votesor BV	Netherlands
Yili-Nabisco Biscuit & Food Company Limited	China

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-71266 and 333-84616) of Kraft Foods Inc. (the "Company") and in the Company's Registration Statements on Form S-3 (File Nos. 333-67770, 333-86478 and 333-101829), of our report dated January 23, 2004 relating to the consolidated financial statements of the Company, 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 23, 2004 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
March 12, 2004

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 Louis C. Camilleri, Marc S. Firestone 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, 2003 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 2nd day of March, 2004.

/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 Louis C. Camilleri, Marc S. Firestone 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, 2003 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 2nd day of March, 2004.

/s/ Dinyar S. Devitre

Dinyar S. Devitre

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 Louis C. Camilleri, Marc S. Firestone 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, 2003 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 2nd day of March, 2004.

/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 Louis C. Camilleri, Marc S. Firestone 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, 2003 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 2nd day of March, 2004.

/s/ Betsy D. Holden

Betsy D. Holden

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 Louis C. Camilleri, Marc S. Firestone 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, 2003 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 2nd day of March, 2004.

/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 Louis C. Camilleri, Marc S. Firestone 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, 2003 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 2nd day of March, 2004.

/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 Louis C. Camilleri, Marc S. Firestone 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, 2003 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 2nd day of March, 2004.

/s/ Charles R. Wall

Charles R. Wall

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 Louis C. Camilleri, Marc S. Firestone 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, 2003 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 2nd day of March, 2004.

/s/ Deborah C. Wright

Deborah C. Wright

EXHIBIT 31.1

I, Roger K. Deromedi, Chief Executive Officer of Kraft Foods Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Kraft Foods Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) [Omitted in reliance on SEC Release No. 33-8238; 34-47986 Section III.E.]
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

/s/ Roger K. Deromedi

Roger K. Deromedi
Chief Executive Officer

EXHIBIT 31.2

I, James P. Dollive, Executive Vice President and Chief Financial Officer of Kraft Foods Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Kraft Foods Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) [Omitted in reliance on SEC Release No. 33-8238; 34-47986 Section III.E.]
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

/s/ James P. Dollive

James P. Dollive
Executive Vice President and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Kraft Foods Inc. (the "Company") on Form 10-K for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roger K. Deromedi, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Roger K. Deromedi

Roger K. Deromedi
Chief Executive Officer
March 12, 2004

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Kraft Foods Inc. (the "Company") on Form 10-K for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James P. Dollive, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James P. Dollive

James P. Dollive
Executive Vice President and Chief Financial Officer
March 12, 2004