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and

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It is a pleasure for Roger and me to be here today to share our exciting Kraft story. Before we begin, let me remind you that our remarks contain forward looking statements and financial projections. Please refer to our Second Quarter 10Q for a statement of the various factors which may cause actual results to be different than those presented or discussed today.

Our key messages today are: first, Kraft has significant strengths to leverage, and proven strategies which are driving our strong results. Second, our volume growth is fueled by new product innovation and developing markets. Third, the Nabisco integration is on-track. Fourth, we are continuing to achieve strong productivity savings, and finally, we are consistently delivering top-tier financial performance.

This top-tier performance was recognized by investors on June 13th, when Kraft began trading under the symbol KFT on the New York Stock Exchange. As you can see here, Roger and I enjoyed ringing the closing bell, accompanied by some of our Kraft friends, including Kool-Aid Man and Mr. Peanut. Kraft's IPO raised 8.4 billion dollars net of costs, which made it the second largest IPO in US history. The proceeds were used as planned to retire a portion of the debt that was incurred to acquire Nabisco.

Since the IPO, we've elected four external directors to the Kraft Board. First is Jim Farrell, who is chairman and CEO of Illinois Tool Works. Jim also serves on the Boards of Allstate Insurance, the Federal Reserve Bank of Chicago, Sears and United Airlines. Jack Pope is Chairman of PFI Group, a financial management firm. He was formerly president and COO of United Airlines. Jack serves on the Boards of Air Canada, Dollar Thrifty Automotive Group, Federal-Mogul and Waste Management.

Mary Schapiro is President of NASD Regulation and a member of the board of the National Association of Securities Dealers. Mary was formerly a Commissioner on the

Securities and Exchange Commission, and she serves as a Board member of Cinergy Corporation and Franklin and Marshall College. Deborah Wright is President and CEO of Carver Bancorp, the holding company for the nation's largest African- and Caribbean-American operated bank. She also serves on the Boards of Harvard University and the Empire State Development Corp. As you've seen, these four outside directors have impressive credentials and will provide valuable contributions to our Board.

Let me now review the first point on our agenda: our mission and strengths. As you may know, Kraft has a clear and bold mission to become the Undisputed Global Food Leader.

We define this mission in the eyes of our six key constituencies. To our consumers, it means being their first choice for innovative food and beverage solutions
To our customers, it means being their indispensable partner. For our strategic alliances, it means being their most desired partner. For our employees, it means being the employer of choice. For the communities in which we operate, it means being a responsible citizen, and finally, for our investors, it means being a consistent, top tier financial performer.

We believe we are well on our way to achieving Undisputed Leadership, based on our strengths. First, we have significant global scale which gives us the scope and resources to maximize our opportunities. Kraft had pro-forma worldwide revenue of $34.1 billion last year, which makes us the second largest food and beverage company in the world. Kraft's products are sold in over 140 countries, and we have operations in 66 countries. In North America, which includes our businesses in the US, Canada and Mexico, Kraft had pro forma revenue of $24.9 billion last year, which makes us the largest food and beverage company in the region.

We also have significant International scale, as Kraft Foods International had pro-forma revenue of $9.2 billion last year, making us the fifth largest food and beverage company outside of North America. In addition, we have three major joint ventures that are not consolidated, but which add more than 3 billion dollars in revenue. They include the United Biscuits venture at nearly 2 billion dollars in revenue, and two coffee joint ventures in Japan and Korea generating in aggregate over 1 billion dollars in revenue.

The second important strength of Kraft is our proven financial track record. Starting with the top line, prior to our acquisition of Nabisco, we grew our volume 2.7% per year from 1996 to 2000, as we added 1.3 billion pounds to our business. This annual increase is about twice the rate of worldwide population growth. Our acquisition of Nabisco boosts our volume by 30% to 17 billion pounds, adding almost 4 billion pounds to our volume base.

Importantly, our volume growth accelerated in 2000. On a pro forma basis, including Nabisco in both 1999 and 2000, our International volume rose almost 6% and our North American volume rose 5%, for an overall growth of 5.3%. However, our pro forma volume growth was aided by Nabisco's acquisition of Favorite Brands International at the end of 1999. Excluding the impact of this acquisition, total Kraft volume was still up a strong 3.9% last year.

Our Operating Companies Income, or OCI, grew 8.1% per year from 1996 to 2000 in constant currency. You can see here that the growth has been consistent, year after year. And with the addition of Nabisco, our 2000 pro forma OCI steps up 22% to $5.6 billion. Our OCI growth accelerated last year. Including Nabisco in both 1999 and 2000, our pro forma OCI grew 9.9% in constant currency, led by International with OCI up 14.9% and North America with OCI up 8.5%. And, we have delivered strong operating cash flow, up from 2.3 billion dollars in 1998 to 3.2 billion dollars in 2000.

Another Kraft strength is our superior portfolio of leading brands and products. Kraft has seven brands that generate over $1 billion in revenue including the *Kraft* brand with revenue exceeding 4 billion dollars and the *Nabisco* brand with revenue over 3 billion dollars. Our other billion dollar brands include *Philadelphia, Jacobs, Oscar Mayer, Maxwell House* and *Post*. Combined, these seven brands account for 40% of our worldwide revenue. In total, Kraft has 61 brands with over $100 million in revenue, including such household favorites as *Altoids* mints, *Jell-O* desserts, *Planters* nuts, *Oreo* cookies and the others you see here. These 61 brands generate 75% of our worldwide revenue.

Many of these brands are category leaders. In the United States, we are number one in 21 of our top 25 categories, including cookies, cream cheese, frozen pizza, luncheon meats and the other categories you see listed. In International markets, Kraft also holds the leadership position in 21 of our top 25 country categories, including biscuits in Argentina and Venezuela, chocolate in Austria and Belgium, and coffee in France and Germany.

Kraft's fourth strength is our world class innovation and marketing capabilities. Kraft has a proven track record in new product innovation, with 2.8 billion dollars of our pro forma revenue in 2000 derived from products introduced in the last three years, and over $4 billion from products introduced in the last five years. But more importantly, we know how to grow these products after they are introduced.

For example, we acquired *Capri Sun* ready to drink beverages, with its unique silver foil pouch, in 1992. Since then, we've quadrupled our ready to drink revenues to more than $650 million dollars last year, and we are #1 in the category. Our growth has been driven by innovative flavors and marketing for *Capri Sun*, and new products such as *Tang* ready-to-drink pouches.

We've also grown our U.S. frozen pizza business from a small #4 regional player in 1986 to a billion dollar leader with a 38% share of the category. A key driver of our results was the introduction of *DiGiorno* rising crust pizza as well as a steady stream of topping and crust innovations.

We support our innovations with world class advertising. In the last six years, we've won 28 advertising awards from the American Marketing Association, and over 40 advertising awards in our International markets.

Kraft's fifth strength is our sales and operational excellence. Kraft has a strong sales infrastructure with over 20,000 sales persons who deliver best-in-class service, and our customers agree. In the most recent U.S. Cannondale survey, done before our acquisition of Nabisco, our customers ranked Kraft number one, tied with P&G, for the Best Sales Force and Customer Teams in the consumer products industry. More importantly, our customers also ranked Kraft number one for offering the Best Combination of Growth and Profitability.

Turning to operational excellence, productivity is the foundation of Kraft's Success Model. The savings generated through our productivity programs are used to fund marketing spending and new products, which in turn drive volume growth and profitability. Over the last five years, we averaged over $450 million per year in productivity cost savings, and in the last two years, we stepped up our annual cost savings to 3.4% of cost of goods sold.

Our sixth and final strength is our experienced management team. Our top 25 executives have an average of 20 years of industry experience and most have multiple business, function and country training. We also have a strong management development program to help our next wave of leadership achieve their full potential.

Let me now turn to our strategies and programs. Kraft has five proven strategies which are driving our strong results. These strategies are:
First, accelerate growth of our core brands,

Second, drive global category leadership,
Third, optimize our portfolio,
Fourth, maximize operating efficiency, and,
Fifth, build employee and organizational excellence.

I'll start with Kraft's first strategy, to accelerate growth of our core brands. One of the most important ways we're doing this is through new product innovations that truly delight our consumers around the world.

Oreo cookies provides an excellent example of how new products drive strong growth for our core brands. Mini-*Oreos* were introduced late last year and became an instant hit with first year retail sales exceeding 70 million dollars. And the April introduction of Chocolate Creme *Oreo* cookies created quite a buzz. These *Oreo* cookies, which have a chocolate filling, appear to be another winner with year to date retail sales already approaching 40 million dollars.

Because of these and other innovations, worldwide *Oreo* revenues are expected to grow from less than 600 million dollars in 1998 to nearly 800 million dollars this year, up 10% per year. That's impressive growth for a brand that's been around since 1912.

To guide future product development activity at Kraft, we are focused on four growth platforms. Our first growth platform is our $10.1 billion Snacks business. This fast growing sector fits well with consumers' desire for great taste and convenience.
For example, we recently introduced *Lunchables* Fun Snacks, so kids can have fun making their own smores, cookies or marshmallow squares. The early response to Fun Snacks has been very positive.

In US confections, we're introducing new flavors and forms of *Creme Savers* hard candy. After only two years in the market, this brand has annual retail sales exceeding 100 million dollars, making it one of the most successful new confectionery products. And our *Milka* Luflee, an aerated chocolate, has been a sweet success in Germany, and we have fast adapted the product to other European countries.

Kraft's second growth platform is Beverages where we have annual revenue of $6.6 billion. Here our focus is on ready to drink products in North America, powdered soft drinks in International, and coffee around the world. For example, we introduced *Capri Sun* Big Pouch in the US. This extension of our popular *Capri Sun* beverage is two-thirds bigger than the regular size and expands the franchise to older kids. We also launched sugar-free *Crystal Light* in convenient ready to drink bottles, and it's off to an encouraging start.

Internationally, product innovations continue to drive *Tang's* success in the powdered form. For example, we are launching *Tang* Plus in Brazil. *Tang* Plus is enriched with iron and Vitamins A and C to help meet the nutritional needs in this developing country. In China, we are expanding *Maxwell House* coffee mixes, which combine coffee, sugar and creamer in a convenient instant form.

Kraft's third growth platform is convenient meals, which generate 5.5 billion dollars in revenue. Our objective is to provide our consumers with new meal products which are both convenient and great tasting. We have introduced two new frozen pizzas this year – *Tombstone* with Mexican style toppings and *DiGiorno* with a crust that is stuffed with cheese. New pizza varieties are helping drive year to date retail sales growth of 11% for our pizza business.

We're also making it easier for consumers to prepare meals at home with *Kraft Freshmade Creations* – a convenient refrigerated meal kit. We are currently in several test markets and initial consumer and customer response has been strong.

Our fourth growth platform is Health & Wellness, where we generate over $2 billion in revenue from products such as reduced and fat free dressings, sugar free beverages, energy bars and meat alternatives. In Asia-Pacific, we fortified our range of Singles cheese slices with additional calcium to help meet the nutritional needs of children, and we successfully launched these products in Australia and Korea earlier this year.

In the US, we've expanded our *Balance* Bar brand with new *Balance Gold* energy bars. *Balance Gold* has a more indulgent taste and delivers the same nutritional benefits as our popular regular *Balance* Bar line. Balance Gold is already among the top five velocity energy bars at retail. We're also extending the *Boca* franchise, our soy-based meat alternative line of products, with innovations such as Italian sausage and spicy chick'n flavored patties. New products, such as these, contributed to a 40% increase in year to date retail sales for the *Boca* line.

We are also accelerating growth through world class marketing. World class marketing is more than terrific advertising. It also includes exciting promotions with strategic partners, such as this fall's Back to School promotion with Nickelodeon. This is our first major Kraft and Nabisco joint kids promotion, with over twenty brands participating in the event. This promotion will be integrated with impactful in-store displays, including our traditional school bus, packed with Nabisco and Kraft products.

World class marketing also includes packaging innovations and promotions. This new Macaroni & Cheese product features a free Monster Key Chain with the purchase of 5 boxes. This promotion ties in with Disney's new Monsters Inc. movie.

Another aspect of world class marketing is how we're using the internet to strengthen relationships with our consumers. Our Kraft Interactive Kitchen attracts millions of adults who utilize our customized cooking-related services, such as our email recipe program. Our *Lifesavers* Candystand.com is oriented to kids, and attracts millions of consumers eager to play games. In fact, our U.S. web sites taken together attract more traffic than any other consumer packaged goods company.

The third way we're accelerating growth is through expansion in growing channels, including alternate retail channels and foodservice. For alternate retail channels, we are tailoring our packaging. We recently introduced our successful *Easy Mac* product in a larger 18 packet size. This package is designed to meet the needs of our club store consumers. For our $2 billion Food Away From Home business, our approach is to emphasize our powerful retail brands, such as this *Kenco* branded coffee machine in the UK.

Our second strategy is to drive global category leadership. One of the key ways we do this is through our Worldwide Category Councils, for biscuits, cheese, coffee, confectionery and refreshment beverages. These councils are led by senior managers from around the world, who work together to set worldwide category strategic direction, optimize our productivity and sourcing efforts, and transfer best practices to all geographies.

Another important function of the worldwide councils is to facilitate the fast adapt of products from one region to another. For example, we have successfully adapted the U.S. *Lunchables* concept to the UK under the *Dairylea* brand and to other European markets under the *Kraft* and *El Caserio* brands.

Driving global category leadership also means growing our business in developing markets. These markets contain 84% of the world's population, but account for only 8% of Kraft's revenues, representing significant potential for growth. Kraft has three key strategies to grow in developing markets. First is to broaden our brand portfolio in categories in which we currently compete. Second is to expand our core categories across geographies. And third is to enter new geographies. This year, we entered Vietnam, Morocco and India.

Club Social is a good example of how we are broadening our brand portfolio. We fast adapted this biscuit from Venezuela to Brazil, and *Club Social's* share of the large Brazilian cracker segment has now reached 6%. In terms of expanding our core categories across developing markets, we have introduced *Kraft* Dinners into the Czech Republic this year, with flavors tailored to local consumer tastes. Most importantly, these growth strategies are working. Our first half 2001 volume in developing markets was up a very strong 11% versus last year.

Kraft's third strategy is to optimize our portfolio through a disciplined program of acquisitions and divestitures. Our criteria for acquiring businesses are straightforward. We seek acquisitions primarily in growth categories. They should add valuable brands that we can develop. The business should improve our scale and market position. It should also generate attractive financial returns, and be quickly accretive to cash earnings.

Kraft has announced several tack-on acquisitions in core categories this year including *Stollwerck* confectionery in Central and Eastern Europe, which is pending regulatory review; *Nova Brasilia* coffee in Bulgaria and Romania; *Ennasr* coffee in Morocco; and *It's Pasta Anytime!* shelf stable meals in the U.S. These businesses are expected to add over 200 million dollars in annual revenue.

Of course, the Nabisco acquisition completed late last year is Kraft's most important acquisition to date, and we are pleased to report that our integration is on-track. One of the key goals in integrating Nabisco was to maintain business momentum. In the important U.S. cookie and cracker category, Kraft's retail sales increased 4.1% through early August, while our share reached 46.5%, up 0.2 percentage points versus last year. More broadly, Nabisco's performance is consistent with our expectations.

We have also been successful in retaining key Nabisco talent, as the voluntary turnover of salaried Nabisco employees has been very low. In addition, we have been successfully merging Kraft and Nabisco businesses and infrastructure, country by country. Kraft has had a lot of experience doing this over the years, and the restructuring is going smoothly.

Last but not least, we are achieving our synergy targets. We stated previously that we expected to generate 100 million dollars in net cost savings in 2001, growing to approximately 600 million dollars in on-going savings. We expect to hit this year's target, and we remain confident that we will deliver the forecasted synergies in 2002 and beyond.

Of course, synergy means more than just cost savings. We are also generating revenue synergies by exploiting joint marketing opportunities. For example, this Fall, *Kraft* cheese is teaming up with *Nabisco* biscuits in the first fully integrated cheese & crackers promotion for the holidays.

We're also benefiting from the combination of Nabisco's and Kraft's exceptional trademarks. We'll be leveraging the equity of the *Kraft* trademark on Nabisco's Cheese *Nips*, highlighting that they're now made with real Kraft cheese. This summer, we introduced *Oreo Jell-O* refrigerated pudding. This new product brings excitement to the refrigerated desserts category and has been well received by both trade customers and consumers.

We're also leveraging the Nabisco trademarks internationally. In Argentina, we recently introduced a *Milka* chocolate bar with *Oreo* cookies, and it's doing very well in the market.

Kraft's fourth strategy is to maximize operating efficiency. As you heard before, productivity is a hallmark of Kraft, and this year is no exception. We expect productivity savings in 2001 to equal 3.5% of our cost of goods sold. And remember, these savings are over and above the Nabisco integration synergies Betsy discussed previously.

We're generating productivity savings from such areas as material sourcing and optimization, increased labor efficiency, consolidation of our plants and warehouses, and procurement. One of our most important productivity initiatives is the utilization of eProcurement to drive cost savings. This technology is enabling us to achieve more efficient transactions, reduced cycle times and improved supply chain processes.

We're also capturing greater marketing efficiencies by consolidating our media buying across our businesses, realigning our marketing agencies, and executing a global contract with A.C. Nielsen. And we're serving our U.S. retail customers more effectively and efficiently with our *Kraft Plus EZ-Serv* website, which provides online information and services designed to help grow their business.

Kraft's fifth strategy is to build employee and organizational excellence. Kraft has a reputation for developing terrific employees and leaders. We do this with our strong management development programs including a wide variety of world class training initiatives. We also place a very high priority on leadership development. Our strong management team has been seasoned through career-broadening assignments in different countries, businesses and functions.

Let me now turn to our strong financial performance and targets. I'll start by reviewing our results for the First Half of 2001. Our first half volume was up 3.3% on a pro forma basis, including Nabisco in both years, driven primarily by new product innovations and continued growth in developing markets. Volume was higher during the First Half across all six of our reporting segments, led by our Latin America and Asia Pacific business, up 9.7% and our Beverages, Desserts and Cereal business, up 7.2%.

First Half revenue was just over 17 billion dollars, which was unchanged versus the prior year on a reported currency basis as our volume growth was offset by unfavorable currency and lower coffee prices. On a constant currency basis, Kraft revenue was up 2.1%.

First Half Operating Companies Income or OCI was just over 3 billion dollars, up 7.2% in reported currency and up a strong 8.9% in constant currency, driven primarily by our volume growth and Nabisco synergy benefits. As a result, our First Half OCI margin was 17.9%, up 1.2 points versus the prior year. Finally, First Half net earnings were just over a billion dollars, up 11.6% versus the prior year on a pro forma basis.

Turning to our earnings per share, our First Half diluted EPS was 58 cents, up 11.5% on a pro forma basis, which assumes our IPO occurred at the beginning of 2000. Our pro forma cash EPS was 86 cents, up 7.5%. We are on-track for our full year earnings estimates which we discussed during our last conference call. Specifically, our pro forma 2001 EPS target is $1.18 to $1.21, while our pro forma cash EPS target is $1.74 to $1.77.

While Betsy and I are confident we will deliver our targets, we continue to face several industry challenges, the first being currency. As you know, most foreign currencies have weakened this year versus the dollar. Even with the recent strengthening of the Euro, we are still being impacted by declines in other currencies such as the Brazilian Real.

Our second key challenge comes from difficult country situations, especially in Argentina and Turkey, which are suffering economic crises, and in Germany where we face price sensitive consumers, an aggressive retail trade and intense competition. Our broad global scope and strong performance in other geographies have offset weakness in these markets.

The third key challenge facing Kraft this year is commodity volatility. Kraft's most important commodity is cheese and the cost of cheese and other dairy ingredients is up sharply this year. We are mitigating much of the impact of these higher costs through forward coverage, price adjustments and selected marketing spending reductions.

Looking out beyond this year, we continue to project strong performance for Kraft. As we stated in our IPO Road Show, we expect our volume to grow 3 to 4 percent per year compounded off our 2000 pro forma base. Our top line will be driven primarily by our expanded business in snacks and beverages, new product innovations, tack-on acquisitions and growth in developing markets.

Net earnings will grow 18 to 22 percent per year, driven by our top line growth, strong productivity programs, Nabisco synergies and prudent re-deployment of our free cash flow. Finally, we expect our cash net earnings will grow 14 to 16 percent compounded. We believe this growth rate will place us in the top tier relative to our competitors.

Let me now summarize the key messages Betsy and I have discussed today. First, Kraft has significant strengths to leverage, and proven strategies which are driving our strong results. Second, our volume growth is fueled by new product innovation and developing markets. Third, the Nabisco integration is on-track. Fourth, we are continuing to achieve strong productivity savings, and finally, we are consistently delivering top-tier financial performance. All of this adds up to Kraft offering excellent growth prospects for our investors.

Thank you, and now we would be pleased to take your questions.