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FORM 10-K

KRAFT FOODS INC - KFT

Filed: February 25, 2010 (period: December 31, 2009)

Annual report which provides a comprehensive overview of the company for the past year

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

(Mark one)

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, 2009

OR

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). 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, 2009, was \$37 billion. At January 29, 2010, there were 1,479,371,197 shares of the registrant's Class A Common Stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its annual meeting of shareholders to be held on May 18, 2010 are incorporated by reference into Part III hereof.

**Kraft Foods Inc.
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In this report, "Kraft Foods," "we," "us" and "our" refers to Kraft Foods Inc. and subsidiaries, and "Common Stock" refers to Kraft Foods' Class A common stock.

PART I

Item 1. Business.

General

Kraft Foods is the world's second largest food company, with revenues of \$40.4 billion and earnings from continuing operations before income taxes of \$4.3 billion in 2009. Kraft Foods was incorporated in 2000 in the Commonwealth of Virginia. We have approximately 97,000 employees worldwide, and we manufacture and market packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products. We sell our products to consumers in approximately 160 countries. At December 31, 2009, we had operations in more than 70 countries and made our products at 159 manufacturing and processing facilities worldwide. At December 31, 2009, we had net assets of \$25.9 billion and gross assets of \$66.7 billion. We are a member of the Dow Jones Industrial Average, Standard & Poor's 500, the Dow Jones Sustainability Index and the Ethibel Sustainability Index.

At December 31, 2009, our portfolio included nine brands with annual revenues exceeding \$1 billion each: *Kraft* cheeses, dinners and dressings; *Oscar Mayer* meats; *Philadelphia* cream cheese; *Maxwell House* and *Jacobs* coffee; *Nabisco* cookies and crackers and its *Oreo* cookie brand; *Milka* chocolates; and *LU* biscuits. Our portfolio included approximately 50 brands which each generate annual revenues of more than \$100 million.

Prior to June 13, 2001, Kraft Foods was a wholly owned subsidiary of Altria Group, Inc. ("Altria"). On June 13, 2001, we completed an initial public offering of 280,000,000 shares of our Common Stock. In the first quarter of 2007, Altria spun off its remaining interest (89.0%) in Kraft Foods on a pro rata basis to Altria stockholders in a tax-free transaction. Effective as of the close of business on March 30, 2007, all Kraft Foods shares owned by Altria were distributed to Altria's stockholders, and our separation from Altria was completed.

Because Kraft Foods Inc. is a holding company, our principal source of funds is from our subsidiaries. Our 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.

Reportable Segments

We manage and report operating results through three geographic units: Kraft Foods North America, Kraft Foods Europe and Kraft Foods Developing Markets. We manage the operations of Kraft Foods North America and Kraft Foods Europe by product category, and we manage the operations of Kraft Foods Developing Markets by location. Our reportable segments are U.S. Beverages, U.S. Cheese, U.S. Convenient Meals, U.S. Grocery, U.S. Snacks, Canada & North America Foodservice, Kraft Foods Europe (formerly known as European Union) and Kraft Foods Developing Markets.

In January 2009, we began implementing changes to our operating structure based on our *Organizing For Growth* initiative and the Kraft Foods Europe Reorganization. In line with our strategies, we are reorganizing our European operations to function on a pan-European centralized category management and value chain model, and we changed how we work in Europe in two key ways:

- We transitioned our European Biscuit, Chocolate, Coffee and Cheese categories to fully integrated business units, further strengthening our focus on these core categories. To ensure decisions are made faster and closer to our customers and consumers, each category is fully accountable for its financial results, including marketing, manufacturing and R&D. Category leadership, based in Zurich, Switzerland, reports to the Kraft Foods Europe President. These business units now comprise the Kraft Foods Europe segment.
- We aligned the reporting of our Central Europe operations into our Kraft Foods Developing Markets segment to help build critical scale in these countries. We operate a country-led model in these markets.

Note 16, *Segment Reporting*, to our consolidated financial statements includes a breakout of net revenues, segment operating income, total assets, depreciation expense and capital expenditures by reportable segment, as well as a breakout of net revenues, long-lived assets and total assets by geographic region. Management uses segment

operating income to evaluate segment performance and allocate resources. We believe it is appropriate to disclose this measure to help investors analyze segment performance and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which are a component of cost of sales), certain components of our U.S. pension plan cost (which is a component of cost of sales and marketing, administration and research costs), general corporate expenses (which are a component of marketing, administration and research costs) and amortization of intangibles.

The relative percentages of total segment operating income attributable to each reportable segment were:

	For the Years Ended December 31,		
	2009	2008	2007
Kraft Foods North America:			
U.S. Beverages	8.8%	8.7%	7.9%
U.S. Cheese	11.5%	12.9%	11.1%
U.S. Convenient Meals	8.8%	7.7%	7.3%
U.S. Grocery	19.7%	23.1%	23.4%
U.S. Snacks	12.5%	14.6%	16.4%
Canada & N.A. Foodservice	9.1%	10.2%	10.1%
Kraft Foods Europe	13.5%	4.2%	10.4%
Kraft Foods Developing Markets	16.1%	18.6%	13.4%
Total Kraft Segment Operating Income	100.0%	100.0%	100.0%

(1) This segment was formerly known as European Union.

Our brands span five consumer sectors:

- **Snacks** - primarily biscuits (cookies and crackers), salted snacks and chocolate confectionery;
- **Beverages** - primarily coffee, packaged juice drinks and powdered beverages;
- **Cheese** - primarily natural, processed and cream cheeses;
- **Grocery** - primarily spoonable and pourable dressings, condiments and desserts; and
- **Convenient Meals** - primarily processed meats, frozen pizza, packaged dinners and lunch combinations.

The following table shows each reportable segment's participation in these five core consumer sectors.

Segment	Percentage of 2009 Net Revenues by Consumer Sector ⁽¹⁾					Total
	Snacks	Beverages	Cheese	Grocery	Convenient Meals	
Kraft Foods North America:						
U.S. Beverages	-	38.0%	-	-	-	7.6%
U.S. Cheese	-	-	53.1%	-	-	8.9%
U.S. Convenient Meals	-	-	-	-	69.7%	11.1%
U.S. Grocery	0.9%	-	-	55.1%	16.6%	8.6%
U.S. Snacks	32.0%	-	0.9%	2.1%	-	12.3%
Canada & N.A. Foodservice	6.5%	6.1%	19.3%	19.8%	7.8%	10.1%
Total Kraft Foods North America	39.4%	44.1%	73.3%	77.0%	94.1%	58.6%
Kraft Foods Europe	31.8%	29.8%	14.3%	9.1%	4.1%	21.7%
Kraft Foods Developing Markets	28.8%	26.1%	12.4%	13.9%	1.8%	19.7%
Total Kraft Foods	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Consumer Sector Percentage of Total Kraft Foods	37.2%	19.9%	16.8%	10.1%	16.0%	100.0%

(1) Percentages were calculated based upon dollars rounded to millions.

Our U.S. subsidiaries export coffee products, refreshment beverage products, grocery products, cheese, biscuits and processed meats. In 2009, these U.S. exports amounted to \$522 million.

Products or similar products contributing 10% or more to Kraft Foods' consolidated net revenues for the years ended December 31, were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Biscuits (cookies and crackers)	23%	22%	16%
Cheese	17%	18%	19%
Coffee	13%	13%	14%
Confectionery	11%	12%	12%

Our major brands within each reportable segment and consumer sector at December 31, 2009 were:

Kraft Foods North America:

U.S. Beverages

Beverages: *Maxwell House, Starbucks* (under license), *Gevalia, General Foods International, Yuban* and *Seattle's Best* (under license) coffees; *Tassimo* hot beverage system; *Capri Sun* (under license) and *Kool-Aid* packaged juice drinks; *Kool-Aid, Crystal Light* and *Country Time* powdered beverages; and *Tazo* (under license) teas.

U.S. Cheese

Cheese: *Kraft* and *Cracker Barrel* natural cheeses; *Philadelphia* cream cheese; *Kraft* grated cheeses; *Polly-O* and *Athenos* cheese; *Velveeta* and *Cheez Whiz* processed cheeses; *Kraft* and *Deli Deluxe* processed cheese slices; and *Breakstone's* and *Knudsen* cottage cheese and sour cream.

U.S. Convenient Meals

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

U.S. Grocery

Grocery: *Jell-O* dry packaged desserts; *Cool Whip* whipped topping; *Jell-O* refrigerated gelatin and pudding snacks; *Jet-Puffed* marshmallows; *Kraft* and *Miracle Whip* spoonable dressings; *Kraft* and *Good Seasons* salad dressings; *A.1.* steak sauce; *Kraft* and *Bull's-Eye* barbecue sauces; *Grey Poupon* premium mustards; *Shake N' Bake* coatings; and *Baker's* chocolate and baking ingredients.

Convenient Meals: *Kraft* and *Kraft Deluxe* macaroni and cheese dinners; *Stove Top* stuffing mix; *Taco Bell Home Originals* (under license) meal kits; and *Velveeta* shells and cheese dinners.

U.S. Snacks

Snacks: *Oreo, Chips Ahoy!, Newtons, Nilla, Nutter Butter* and *SnackWell's* cookies; *Ritz, Premium, Triscuit, Wheat Thins, Cheese Nips, Flavor Originals, Honey Maid* grahams, *Teddy Grahams* and *Kraft* macaroni and cheese crackers; *Nabisco* 100 Calorie Packs; *Planters* nuts and trail mixes; *Handi-Snacks* two-compartment snacks; and *Back to Nature* granola, cookies, crackers, nuts and fruit & nut mixes.

Cheese: *Easy Cheese* cheese spread.

Canada & N.A. Foodservice

Canada and foodservice products span all Kraft Foods North America segments and sectors. Canadian brand offerings include *Delissio* pizza, *Nabob* coffee, *Kraft* peanut butter and *Peek Freans* biscuits, as well as a range of products bearing brand names similar to those marketed in the U.S. The N.A. Foodservice business sells primarily branded products including *Maxwell House* coffee, *Oreo* cookies, *A.1.* steak sauce, and a broad array of *Kraft* sauces, dressings and cheeses.

Kraft Foods Europe:

Snacks:	<i>Milka, Suchard, Côte d'Or, Marabou, Toblerone, Freia, Terry's, Daim / Dime, Lacta, Pavlides, Twist, Merenda and Mirabell</i> chocolate confectionery products; and <i>Oreo, Digestive, Tuc, Mini-Star, Mikado</i> (under license), <i>Ourson, Petit Déjeuner, Cracotte, Belin, Heudebert, Grany, Petit Ecolier, Saiwa, Oro, Fonzies, Start, Prince and Belvita</i> biscuits.
Beverages:	<i>Jacobs, Gevalia, Carte Noire, Jacques Vabre, Kaffee HAG, Grand' Mère, Kenco, Saimaza, Maxwell House, Onko, Splendid, Starbucks</i> (under license) and <i>Karat</i> coffees; <i>Tassimo</i> hot beverage system; <i>Tang</i> powdered beverages; and <i>Suchard Express, O'Boy and Kaba</i> chocolate drinks.
Cheese:	<i>Dairylea, Sottilette, Osella and El Caserío</i> cheeses; and <i>Philadelphia</i> cream cheese.
Grocery:	<i>Kraft</i> pourable and spoonable salad dressings; <i>Miracel Whip</i> spoonable dressings; and <i>Mirácolí</i> sauces.
Convenient Meals:	<i>Lunchables</i> lunch combinations; <i>Mirácolí</i> pasta dinners and sauces; and <i>Simmenthal</i> canned meats.

Kraft Foods Developing Markets:

Snacks:	<i>Milka, Toblerone, Lacta, Côte d'Or, Shot, Terrabusi, Suchard, Alpen Gold, Karuna, Korona, Poiana, Svoge, Ukraina, Vozdushny, Chudny Vecher, Terry's, Figaro, Prince Polo / Siesta, Piros, Mogyoros and Gallito</i> chocolate confectionery products; <i>Oreo, Chips Ahoy!, Ritz, Club Social, Express, Kraker Bran, Honey Bran, Aveny Bran, Marbu, Variedad, Pacific, Belvita, Cerealitas, Lucky, Trakinas, Tuc, Mikado</i> (under license), <i>Ourson, Petit Déjeuner, Cracotte, Bolshevik, Prichuda, Jubilee, Major, Merendina, Jacob's, Chipsmore, Twisties, Biskuat / Tiger, Milk Biscuit, Hi Calcium Soda, Pépito, Gyori</i> and <i>PIM's</i> biscuits; and <i>Estrella, Kar, Lux and Planters</i> nuts and salted snacks.
Beverages:	<i>Maxwell House, Maxim, Carte Noire, Nova Brasilia</i> and <i>Jacobs</i> coffee; and <i>Tang, Clight, Kool-Aid, Verao, Frisco, Q-Refres-Ko, Royal</i> and <i>Fresh</i> powdered beverages.
Cheese:	<i>Kraft, Velveeta</i> and <i>Eden</i> processed cheeses; <i>Philadelphia</i> cream cheese; <i>Kraft</i> natural cheese; and <i>Cheez Whiz</i> processed cheese spread.
Grocery:	<i>Royal</i> dry packaged desserts; <i>Kraft</i> spoonable and pourable salad dressings; <i>Miracle Whip</i> spoonable dressings; <i>Jell-O</i> dessert toppings; <i>Kraft</i> peanut butter; and <i>Vegemite</i> yeast spread.
Convenient Meals:	<i>Kraft</i> macaroni and cheese dinners.

Significant Acquisitions and Divestitures**Cadbury Acquisition:**

On January 19, 2010, we announced the terms of our final offer for each outstanding ordinary share of Cadbury plc ("Cadbury"), including each ordinary share represented by an American Depositary Share ("Cadbury ADS"), and the Cadbury board of directors recommended that Cadbury shareholders accept the terms of the final offer. Under the terms of the offer, we agreed to pay Cadbury shareholders 500 pence in cash and 0.1874 shares of Kraft Foods Common Stock per Cadbury ordinary share validly tendered and 2,000 pence in cash and 0.7496 shares of Kraft Foods Common Stock per Cadbury ADS validly tendered. This valued each Cadbury ordinary share at 840 pence and each Cadbury ADS at £33.60 (based on the closing price of \$29.58 for a share of Kraft Foods Common Stock on January 15, 2010 and an exchange rate of \$1.63 per £1.00) and valued the entire issued share capital of Cadbury at £11.9 billion (approximately \$19.4 billion) on January 15, 2010, the last trading day before the publication of our final offer. The combination of Kraft Foods and Cadbury will create a global powerhouse in snacks, confectionery and quick meals with a rich portfolio of iconic brands.

On February 2, 2010, all of the conditions to the offer were satisfied or validly waived, the initial offer period expired and a subsequent offer period immediately began. At that point, we had received acceptances of 71.73% of the outstanding Cadbury ordinary shares, including those represented by Cadbury ADSs. The subsequent offer period remains open until further notice and at least 14 days of notice will be given if Kraft Foods decides to close the offer. As of February 15, 2010, we had received acceptances of 1,262,356,520 shares representing 91.02% of the outstanding Cadbury ordinary shares, including those represented by Cadbury ADSs. As we have received

acceptances of over 90% of Cadbury shares, we are in the process of acquiring the remaining Cadbury ordinary shares that are not tendered in the offer, including those represented by Cadbury ADSs, through a compulsory acquisition procedure under the United Kingdom Companies Act of 2006, as amended. Additionally, as a condition of the EU Commission's approval of the Cadbury acquisition, we are required to divest confectionary operations in Poland and Romania. As part of our acquisition of Cadbury, we expensed approximately \$40 million in transaction related fees in 2009 as we incurred them, and we also incurred \$40 million in financing fees in 2009 related to the acquisition.

Pizza Divestiture:

On January 4, 2010, we entered into an agreement to sell the assets of our North American frozen pizza business ("Frozen Pizza") to Nestlé USA, Inc. ("Nestlé") for total consideration of \$3.7 billion. Our Frozen Pizza business is a component of our U.S. Convenient Meals and Canada & N.A. Foodservice segments. The sale, which is subject to customary conditions, including regulatory clearances, includes the *DiGiorno*, *Tombstone* and *Jack's* brands in the U.S., the *Delissio* brand in Canada and the *California Pizza Kitchen* trademark license. It also includes two Wisconsin manufacturing facilities (Medford and Little Chute) and the leases for the pizza depots and delivery trucks. It is estimated that approximately 3,400 of our employees will transfer with the business to Nestlé. We anticipate that the transaction will close in the first quarter of 2010.

Post Cereals Split-off:

On August 4, 2008, we completed the split-off of the *Post* cereals business into Ralcorp Holdings, Inc., after an exchange with our shareholders. Accordingly, the *Post* cereals business prior period results were reflected as discontinued operations on the consolidated statement of earnings. The exchange was expected to be tax-free to participating shareholders for U.S. federal income tax purposes.

In this split-off transaction, approximately 46.1 million shares of Kraft Foods Common Stock were tendered for \$1,644 million. Our shareholders had the option to exchange some or all of their shares of Kraft Foods Common Stock and receive shares of common stock of Cable Holdco, Inc. ("Cable Holdco"). Cable Holdco was our wholly owned subsidiary that owned certain assets and liabilities of the *Post* cereals business. In exchange for the contribution of the *Post* cereals business, Cable Holdco issued approximately \$665 million in debt securities, issued shares of its common stock and assumed a \$300 million credit facility. Upon closing, we used the cash equivalent net proceeds, approximately \$960 million, to repay debt. As a result of the split-off, we recorded a gain on discontinued operations of \$926 million, or \$0.61 per diluted share, in 2008.

LU Biscuit Acquisition:

On November 30, 2007, we acquired the Groupe Danone S.A. global *LU* biscuit business ("*LU* Biscuit") for €5.1 billion (approximately \$7.6 billion) in cash. The acquisition included 32 manufacturing facilities and approximately 14,000 employees. *LU* Biscuit reports results from operations on a one month lag; accordingly, there was no effect on our 2007 operating results. On a proforma basis, *LU* Biscuit would have contributed net revenues of \$2.8 billion during 2007, and *LU* Biscuit's contribution to net earnings would have been insignificant to Kraft Foods.

See Note 2, *Acquisitions and Divestitures*, to our consolidated financial statements for additional information on these transactions.

Customers

Our five largest customers accounted for approximately 27% of our net revenues in 2009 compared with 27% in 2008 and 29% in 2007. Our ten largest customers accounted for approximately 36% of our net revenues in 2009 compared with 36% in 2008 and 40% in 2007. One of our customers, Wal-Mart Stores, Inc., accounted for approximately 16% of our net revenues in 2009 compared with 16% in 2008 and 15% in 2007.

Seasonality

Demand for some of our products may be influenced by holidays, changes in seasons or other annual events. However, overall sales of our products are generally evenly balanced throughout the year due to the offsetting nature of demands for our diversified product portfolio.

Competition

We face competition in all aspects of our business. Competitors include large national and international companies and numerous local and regional companies. Some competitors have different profit objectives and some international competitors are less susceptible to currency exchange rates. We also compete with generic products and retailer brands, wholesalers and cooperatives. We compete primarily on the basis of product quality, brand recognition, brand loyalty, service, marketing, advertising and price. Moreover, improving our market position or introducing a new product requires substantial advertising and promotional expenditures.

Distribution and Marketing

Our products are generally sold to supermarket chains, wholesalers, supercenters, club stores, mass merchandisers, distributors, convenience stores, gasoline stations, drug stores, value stores 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. We currently distribute most products in North America through a combination of direct store delivery and warehouse delivery. Outside of North America, our products are distributed through warehouse delivery and through the services of independent sales offices and agents.

Our marketing efforts are conducted through three principal sets of activities: (i) consumer marketing in broadcast, print, outdoor and on-line media; (ii) consumer incentives such as coupons and contests; and (iii) trade promotions to support price features, displays and other merchandising of our products by our customers.

Raw Materials and Packaging

We are a major purchaser of dairy, coffee, cocoa, wheat, corn products, soybean and vegetable oils, nuts, meat products, and sugar and other sweeteners. We also use significant quantities of plastic, glass and cardboard to package our products, and natural gas for our factories and warehouses. We continuously monitor worldwide supply and cost trends of these commodities so we can act quickly to obtain ingredients and packaging needed for production.

We purchase our 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 market supply and demand, as well as by government programs. Dairy commodity costs on average were lower in 2009 than in 2008. Significant cost items in our biscuit and grocery products are grains (wheat, corn and soybean oil). Grain costs have experienced significant volatility as a result of burgeoning global demand for food, livestock feed and biofuels such as ethanol and biodiesel. Grain costs on average were relatively flat from 2008 to 2009. 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, changes in the value of the U.S. dollar in relation to certain other currencies and consumer demand for coffee products. Green coffee bean costs on average were lower in 2009 than in 2008. 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 and the U.S. dollar relative to certain other currencies. Cocoa bean and cocoa butter costs on average were higher in 2009 than in 2008.

During 2009, our aggregate commodity costs decreased primarily as a result of lower dairy costs. For 2009, our commodity costs were approximately \$150 million lower than 2008, following an increase of approximately \$2.0 billion in 2008 compared to 2007. Overall, we expect commodity costs to continue to be volatile in 2010.

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

Intellectual Property

We consider our trademarks, in the aggregate, to be material to our business. We protect our trademarks by registration or otherwise in the U.S. and in other markets where we sell our products. Trademark protection continues in some countries for as long as the mark is used and in other countries for as long as it is registered. Registrations generally are for renewable, fixed terms. From time to time, we grant third parties licenses to use one or more of our trademarks in particular locations. Similarly, we sell some of our products under brands we license from third parties, including at December 31, 2009:

- *Starbucks* coffee, *Seattle's Best* coffee and *Tazo* teas for sale in U.S. grocery stores and other distribution channels;
- *Starbucks* and *Seattle's Best* coffee T-Discs and *Tazo* teas T-Discs for use in our *Tassimo* hot beverage system;
- *Capri Sun* packaged juice drinks for sale in the U.S. and Canada;
- *Taco Bell Home Originals* Mexican style food products for sale in U.S. grocery stores; and
- *California Pizza Kitchen* frozen pizzas for sale in U.S. grocery stores.

Additionally, we own numerous patents worldwide. While our patent portfolio is material to our business, the loss of one patent or a group of related patents would not have a material adverse effect on our business. We have either been issued patents or have patent applications pending that relate to a number of current and potential products, including products licensed to others. Patents, issued or applied for, cover inventions ranging from basic packaging techniques to processes relating to specific products and to the products themselves. Our issued patents extend for varying periods according to the date of patent application filing or grant and the legal term of patents in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage as determined by the patent office or courts in the country, and the availability of legal remedies in the country. We consider that in the aggregate our patent applications, patents and licenses under patents owned by third parties are of material importance to our operations.

We also have proprietary trade secrets, technology, know-how processes and related intellectual property rights that are not registered.

Research and Development

We pursue four objectives in research and development: product safety and quality; growth through new products; superior consumer satisfaction; and reduced costs. We have approximately 2,300 food scientists, chemists and engineers working primarily in six key technology centers: East Hanover, New Jersey; Glenview, Illinois; Tarrytown, New York; Banbury, United Kingdom; Paris, France; and Munich, Germany. These technology centers are equipped with pilot plants and state-of-the-art instruments. Research and development expense was \$477 million in 2009, \$498 million in 2008 and \$442 million in 2007.

Regulation

Our U.S. food products and packaging materials are primarily regulated by the U.S. Food and Drug Administration or, for products containing meat and poultry, the U.S. Food Safety and Inspection Service of the U.S. Department of Agriculture. These agencies enact and enforce regulations relating to the manufacturing, distribution and labeling of food products.

In addition, various states regulate our U.S. operations by licensing plants, enforcing federal and state standards for selected food products, grading food products, inspecting plants and warehouses, regulating trade practices related to the sale of dairy products and imposing their own labeling requirements on food products.

Many of the food commodities we use in our U.S. operations are subject to governmental agricultural programs. These programs have substantial effects on prices and supplies and are subject to periodic U.S. Congressional and administrative review.

All of our non-U.S. based operations are subject to local and national regulations, some of which are similar to those applicable to our U.S. operations. For example, in the European Union, we must comply with requirements that apply to labeling, packaging, food content, pricing, marketing and advertising and related areas.

Environmental Regulation

We are subject to various federal, state and local laws in the U.S. and laws and regulations outside of the U.S. relating to the protection of the environment. We accrue for environmental remediation obligations on an undiscounted basis when amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change. Recoveries of environmental remediation costs from third parties are recorded as assets when recovery of those costs is deemed probable. In the U.S., the laws and regulations include the Clean Air Act 1990, the Clean Water Act 1972, the Resource Conservation and Recovery Act 1976 and Superfund (the environmental program established to address abandoned hazardous waste sites), which imposes joint and severable liability on each responsible party. At December 31, 2009, our subsidiaries were involved in 71 active actions in the U.S. under Superfund legislation (and other similar actions) related to current operations and certain former or divested operations for which we retain liability.

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

Based on information currently available, we believe that the ultimate resolution of existing environmental remediation actions and our compliance in general with environmental laws and regulations will not have a material effect on our financial results. However, we cannot quantify with certainty the potential impact of future compliance efforts and environmental remediation actions.

Employees

At December 31, 2009, we employed approximately 97,000 people worldwide. Labor unions represent approximately 26% of our 40,000 U.S. employees. Most of the unionized workers at our U.S. 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 U.S., labor unions or workers' councils represent approximately 60% of our 57,000 employees. Our business units are subject to various laws and regulations relating to their relationships with their employees. These laws and regulations are specific to the location of each business unit. In addition, in accordance with European Union requirements, we have established a European Works Council composed of management and elected members of our workforce. We believe that our relationships with employees and their representative organizations are good.

In 2008, we completed our five-year restructuring program. As part of the program, we announced the elimination of approximately 18,600 positions. As of December 31, 2009, we had eliminated approximately 17,300 of those positions.

Executive Officers of the Registrant

The following were our executive officers on February 25, 2010:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Irene B. Rosenfeld	56	Chairman and Chief Executive Officer
David A. Brearton	49	Executive Vice President, Operations and Business Services
Michael A. Clarke	45	Executive Vice President and President, Kraft Foods Europe
Marc S. Firestone	50	Executive Vice President, Corporate and Legal Affairs and General Counsel
Sanjay Khosla	58	Executive Vice President and President, Kraft Foods International
Karen J. May	51	Executive Vice President, Global Human Resources
Timothy R. McLevish	54	Executive Vice President and Chief Financial Officer
Michael Osanloo	43	Executive Vice President, Strategy
Jean E. Spence	52	Executive Vice President, Research, Development and Quality
W. Anthony Vernon	54	Executive Vice President and President, Kraft Foods North America
Mary Beth West	47	Executive Vice President and Chief Marketing Officer

Ms. Rosenfeld was appointed Chief Executive Officer of Kraft Foods in June 2006 and Chairman of the Board in March 2007. Prior to that, she had been Chairman and Chief Executive Officer of Frito-Lay, a division of PepsiCo, Inc., a food and beverage company, from September 2004 to June 2006. Previously, Ms. Rosenfeld was employed continuously by Kraft Foods, and its predecessor, General Foods Corporation, in various capacities from 1981 until 2003, including President of Kraft Foods North America. She is also a Trustee of Cornell University.

Mr. Brearton was appointed as Executive Vice President, Operations and Business Services effective January 1, 2008. Prior to that, he served as Executive Vice President, Global Business Services and Strategy, as Senior Vice President of Business Process Simplification and as Corporate Controller for Kraft Foods. He previously served as a Senior Vice President, Finance for Kraft Foods International. Mr. Brearton first joined Kraft Foods in 1984. Mr. Brearton is also on the Board of Directors of Feeding America.

Mr. Clarke joined Kraft Foods as President, Kraft Foods Europe on January 2, 2009 and was appointed Executive Vice President and President, Kraft Foods Europe on January 27, 2009. Prior to joining Kraft Foods, Mr. Clarke spent 12 years with The Coca-Cola Company, a beverage company, most recently serving as President of the Northwest Europe and Nordics businesses from August 2005 to December 2008 and as President of the South Pacific and Korea businesses from March 2000 to July 2005. Mr. Clarke is also on the Advisory Board of the Inspire Foundation.

Mr. Firestone was appointed as Executive Vice President, Corporate and Legal Affairs and General Counsel in January 2006. He previously served as Kraft Foods' Executive Vice President, General Counsel and Corporate Secretary. Prior to joining Kraft Foods in 2003, Mr. Firestone served as Senior Vice President and General Counsel of Philip Morris International, a tobacco company.

Mr. Khosla was appointed as Executive Vice President and President, Kraft Foods International in January 2007. Before joining Kraft Foods, he served as the Managing Director of the consumer and foodservice business for the New Zealand-based Fonterra Co-operative Group, a dairy company. Previously, Mr. Khosla spent 27 years with Unilever, a consumer products company, in India, London and Europe. Mr. Khosla also serves on the boards of Best Buy Co., Inc. and NIIT Ltd. and is a trustee of the Goodman Theater Company in Chicago.

Ms. May was appointed as Executive Vice President, Global Human Resources in October 2005. Prior to joining Kraft Foods, she had been Corporate Vice President, Human Resources for Baxter International Inc., a healthcare company, since February 2001. Ms. May also serves on the Board of Directors of MB Financial Inc.

Mr. McLevish was appointed as Executive Vice President and Chief Financial Officer in October 2007. Prior to that, he had been the Senior Vice President and Chief Financial Officer at Ingersoll-Rand Company Limited, an industrial company, since June 2002. Mr. McLevish also serves on the Board of Directors of Kennametal Inc.

Mr. Osanloo was appointed as Executive Vice President, Strategy in April 2008. Prior to joining Kraft Foods, Mr. Osanloo served as Senior Vice President, Marketing at Harrah's Entertainment, a provider of branded casino entertainment, from July 2005 until March 2008. Previously, Mr. Osanloo was a partner in the retail and consumer products practice at Bain & Company, a management consulting firm, from August 1996 until June 2005.

Ms. Spence was appointed as Executive Vice President, Research, Development and Quality in January 2004. Prior to her current position, Ms. Spence served as the Senior Vice President, Research and Development, Kraft Foods North America. She joined Kraft Foods in 1981. Ms. Spence also serves on the Board of Directors of International Life Sciences Institute.

Mr. Vernon joined Kraft Foods as Executive Vice President and President, Kraft Foods North America in August 2009. Prior to that, he was the Healthcare Industry Partner of Ripplewood Holdings Inc., a private equity firm, since 2006. Mr. Vernon spent 23 years with Johnson & Johnson, a pharmaceutical company, in a variety of leadership positions, most recently serving as Company Group Chairman of DePuy Inc., an orthopedics company and subsidiary of Johnson & Johnson, from 2004 to 2005. Mr. Vernon also serves on the Board of Directors of Medivation, Inc.

Ms. West was appointed as Executive Vice President and Chief Marketing Officer in October 2007. Previously, she served as a Group Vice President for Kraft Foods and President of the North America Beverages Sector. Ms. West

joined Kraft Foods in 1986. Ms. West also serves on the Board of Directors of J.C. Penney Co., Inc. and is a member of the Executive Leadership Council.

Mr. Searer, 56, served as Executive Vice President and President, Kraft Foods North America from September 2006 until August 2009. Previously, Mr. Searer served as the Group Vice President and President, North America Convenient Meals Sector. Mr. Searer joined Kraft Foods in 1981. Mr. Searer also serves on the Board of Directors of Bush Brothers & Company. Mr. Searer retired from Kraft Foods in September 2009.

We adopted The Kraft Foods Code of Conduct for Compliance and Integrity, which qualifies as a code of ethics under Item 406 of Regulation S-K. The code applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. Our code of ethics is available free of charge on our website at www.kraftfoodscompany.com and will be provided free of charge to any shareholder submitting a written request to: Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, IL 60093. We will disclose any waiver we grant to our principal executive officer, principal financial officer, principal accounting officer or controller under our code of ethics, or certain amendments to the code of ethics, on our website at www.kraftfoodscompany.com.

In addition, we adopted Corporate Governance Guidelines, charters for each of the Board's five standing committees and the Code of Business Conduct and Ethics for Directors. All of these materials are available on our website at www.kraftfoodscompany.com and will be provided free of charge to any shareholder requesting a copy by writing to: Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, IL 60093. Certain of these materials may also be found in our proxy statement relating to our 2010 Annual Meeting of Shareholders.

Available Information

Our Internet address is www.kraftfoodscompany.com. Our 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, are available free of charge as soon as possible after we electronically file them with, or furnish them to, the SEC. You can access our filings with the SEC by visiting www.kraftfoodscompany.com. The information on our website is not, and shall not be deemed to be, a part of this Annual Report on Form 10-K or incorporated into any other filings we make with the SEC.

You can also read and copy any document that we file, including this Annual Report on Form 10-K, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Call the SEC at 1-800-SEC-0330 for information on the operation of the Public Reference Room. In addition, the SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, including Kraft Foods, that file electronically with the SEC.

Item 1A. Risk Factors.

You should read the following risk factors carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, operating results, financial condition and the actual outcome of matters as to which forward-looking statements are made in this Annual Report on Form 10-K. While we believe we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our business, performance or financial condition in the future.

We operate in a highly competitive industry, which may affect our profitability.

The food industry is highly competitive. We compete based on price, product innovation, product quality, brand recognition and loyalty, effectiveness of marketing, promotional activity and the ability to identify and satisfy consumer preferences.

From time to time, we may need to reduce our prices in response to competitive and customer pressures and to maintain our market share. Competition and customer pressures may also restrict our ability to increase prices in

response to commodity and other input cost increases. Our results of operations will suffer if profit margins decrease as a result of a reduction in prices, increased input costs or other factors, and if we are unable to increase sales volumes to offset those profit margin decreases.

Retailers are increasingly offering retailer brands that compete with some of our products. It is important that our products provide higher value and / or quality to our consumers than less expensive alternatives. If the difference in value or quality between our products and those of retailer brands narrows, or if the perceived difference in quality narrows, then consumers may not buy our products. Furthermore, during periods of economic uncertainty, such as we continue to experience, consumers tend to purchase more retailer brands or other economy brands, which could reduce sales volumes of our products or shift our product mix to our lower margin offerings. If we are not able to maintain or improve our brand image or value proposition, it could have a material effect on our market share and our profitability.

We may also need to increase spending on marketing, advertising and new product innovation to protect existing market share or increase market share. The success of our investments is subject to risks, including uncertainties about trade and consumer acceptance. As a result, our increased expenditures may not maintain or enhance market share and could result in lower profitability.

The consolidation of retail customers, the loss of a significant customer or a material reduction in sales to a significant customer could affect our operating margins, our profitability, our net revenues and our results of operations.

Retail customers, such as supermarkets, warehouse clubs and food distributors in the U.S., the European Union and our other major markets, continue to consolidate. These consolidations have produced large, sophisticated customers with increased buying power. These larger retailers, capable of operating with reduced inventories, can resist price increases and demand lower pricing, increased promotional programs and specifically tailored products. In addition, they may use shelf space currently used for our products for their own retailer brands. The consolidation of retail customers also increases the risk that a severe adverse impact on their business operations could have a corresponding material adverse effect on us. Also, our retail customers may be affected by recent economic conditions. For example, they may not have access to funds or financing and that could cause them to delay, decrease or cancel purchases of our products, or to not pay us or to delay paying us for previous purchases.

During 2009, our five largest customers accounted for approximately 27% of our net revenues with our largest customer Wal-Mart Stores, Inc., accounting for approximately 16% of our net revenues. There can be no assurance that all significant customers will continue to purchase our products in the same quantities that they have in the past. The loss of any one of our significant customers or a material reduction in sales to a significant customer could have a material adverse effect on our net revenues and results of operations.

Increased price volatility for commodities we purchase may affect our profitability.

We are a major purchaser of commodities, including dairy, coffee, cocoa, wheat, corn products, soybean and vegetable oils, nuts, meat products, and sugar and other sweeteners. In addition, we use significant quantities of plastic, glass and cardboard to package our products, and natural gas for our factories and warehouses. Price volatility for commodities we purchase has increased due to conditions outside of our control, including recent economic conditions, currency fluctuations, availability of supply, weather, consumer demand and changes in governmental agricultural programs. Although we monitor our exposure to commodity prices as an integral part of our overall risk management program, continued volatility in the prices of commodities we purchase could increase the costs of our products and services, and our profitability could suffer.

Our product sales depend on our ability to predict, identify and interpret changes in consumer preferences and demand, and our ability to develop and offer new products rapidly enough to meet those changes.

Consumer preferences for food products change continually. Our success depends on our ability to predict, identify and interpret the tastes and dietary habits of consumers and to offer products that appeal to those preferences.

If we do not succeed in offering products that appeal to consumers, our sales and market share will decrease and our profitability could suffer. We must be able to distinguish among short-term fads, mid-term trends and long-term changes in consumer preferences. If we are unable to accurately predict which shifts in consumer preferences will be long-term, or if we fail to introduce new and improved products to satisfy those preferences, our sales could decline. In addition, because of our varied consumer base, we must offer a sufficient array of products to satisfy the broad spectrum of consumer preferences. If we fail to expand our product offerings successfully across product

categories or if we do not rapidly develop products in faster growing and more profitable categories, demand for our products will decrease and our profitability could suffer.

Prolonged negative perceptions concerning the health implications of certain food products could influence consumer preferences and acceptance of some of our products and marketing programs. For example, recently, consumers have been increasingly focused on health and wellness, including weight management and sodium consumption. Although we strive to respond to consumer preferences and social expectations, we may not be successful in these efforts. Continued negative perceptions and failure to satisfy consumer preferences could decrease demand for our products and adversely affect our profitability.

As a multinational corporation, our operations are subject to additional risks.

We generated approximately 48% of our 2009 net revenues, 49% of our 2008 net revenues and 43% of our 2007 net revenues outside the U.S. The percentage of the combined company's sales generated outside of the U.S. will increase in 2010, due to the acquisition of Cadbury and with the anticipated sale of our Frozen Pizza business. With operations in over 70 countries, our operations are subject to risks inherent in multinational operations, including:

- fluctuations in currency values,
- unpredictability of foreign currency exchange controls,
- discriminatory fiscal policies,
- compliance with a variety of local regulations and laws,
- changes in tax laws and the interpretation of those laws,
- difficulties enforcing intellectual property and contractual rights in certain jurisdictions, and
- greater risk of uncollectible accounts and longer collection cycles.

In addition, certain jurisdictions could impose tariffs, quotas, trade barriers, and other similar restrictions on our sales. Moreover, our business operations could be interrupted and negatively affected by economic changes, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, and other economic or political uncertainties. All of these risks could result in increased costs or decreased revenues, either of which could adversely affect our profitability.

If we are unable to expand our operations in certain emerging markets, our growth rate could be negatively affected.

In 2007, we unveiled our strategies to grow our operations with increased focus on emerging markets, especially Brazil, Russia, China and other regions of Southeast Asia. The success of our operations depends in part on our ability to grow our business in these and other emerging markets. In some cases, emerging markets have greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions. In addition, emerging markets are becoming more competitive as other companies grow globally and local low cost manufacturers expand their production capacities. If we are unable to increase our business in emerging markets, our market share and profitability could be adversely affected.

We may not be able to consummate proposed acquisitions or divestitures successfully or integrate acquired businesses successfully.

From time to time, we may evaluate acquisition candidates that would strategically fit our business objectives. If we are unable to complete acquisitions, or integrate successfully and develop these businesses to realize revenue growth and cost savings, including recently acquired Cadbury, our financial results could be adversely affected. In addition, from time to time, we divest businesses that do not meet our strategic objectives, or do not meet our growth or profitability targets. Our profitability may be affected by either gains or losses on the sales of, or lost operating income from, those businesses. Also, we may not be able to complete desired or proposed divestitures on terms favorable to us. Moreover, we may incur asset impairment charges related to acquisitions or divestitures which may reduce our profitability. Finally, our acquisition or divestiture activities may present financial, managerial and operational risks, including diversion of management attention from existing core businesses, difficulties integrating or separating personnel and financial and other systems, adverse effects on existing business relationships with suppliers and customers, inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets which would reduce future reported earnings, potential loss of customers or key employees of acquired businesses, and indemnities and potential disputes with the buyers or sellers. Any of these activities could affect our product sales, financial condition and results of operations.

Business process improvement initiatives to harmonize our systems and processes may fail to operate as designed and intended.

We regularly implement business process improvement initiatives to harmonize our systems and processes and to optimize our performance. Our current business process initiatives include, but are not limited to, our reorganization of our European operations, the delivery of a SAP enterprise resource planning application, and the outsourcing of certain administrative functions. If our business process improvement initiatives fail, our ability to improve existing operations, achieve anticipated cost savings and support future growth could be delayed.

Changes in our debt ratings and the effects of volatile economic conditions on the credit market could adversely affect our borrowing costs and liquidity.

Our debt ratings depend generally on the amount of our debt and our ability to service our debt. A downgrade in our debt ratings, including as a result of incurring additional debt, would, and disruptions in the commercial paper market or the effects of other volatile economic conditions on the credit market could, reduce the amount of commercial paper that we could issue. In addition, any of these risks could raise our borrowing costs for both short-term and long-term debt offerings.

Legal claims, product recalls or other regulatory enforcement actions could affect our sales, reputation and profitability.

As a large food company that operates in a highly regulated, highly competitive environment with growing retailer power and a constantly evolving legal and regulatory framework around the world, we are subject to heightened risk of legal claims or other regulatory enforcement actions. Legal claims or regulatory enforcement actions arising out of our failure or alleged failure to comply with applicable laws and regulations could adversely affect our sales, reputation and profitability.

Further, selling products for human consumption involves inherent risks. We could be required to recall products due to product contamination, spoilage or other adulteration, product misbranding or product tampering.

We may also suffer losses if our products or operations violate applicable laws or regulations, or if our products cause injury, illness or death. In addition, our marketing could be the target of claims of false or deceptive advertising or other criticism. A significant product liability or other legal judgment or a related regulatory enforcement action against us, or a widespread product recall, may adversely affect our profitability. Moreover, even if a product liability or consumer fraud claim is unsuccessful, has no merit or is not pursued, the negative publicity surrounding assertions against our products or processes could adversely affect our sales, reputation and profitability.

Increased regulation could increase our costs and affect our profitability.

Food production and marketing are highly regulated by a variety of federal, state, local and foreign agencies. New regulations and changes to existing regulations are issued regularly. Increased governmental regulation of the food industry, such as proposed requirements designed to enhance food safety or to regulate imported ingredients, could increase our costs and adversely affect our profitability.

Volatility in the equity markets or interest rates could substantially increase our pension costs and have a negative impact on our operating results and profitability.

At the end of 2009, the projected benefit obligation of our defined benefit pension plans was \$10.6 billion and assets were \$8.9 billion. The difference between plan obligations and assets, or the funded status of the plans, significantly affects the net periodic benefit costs of our pension plans and the ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, investment returns and the market value of plan assets can (i) affect the level of plan funding; (ii) cause volatility in the net periodic pension cost; and (iii) increase our future funding requirements. In addition, if we divest certain businesses, we may be required to increase future contributions to the benefit plans and the related net periodic pension cost could increase.

We expect to make approximately \$240 million in contributions to our pension plans in 2010, which is approximately \$380 million less than we made in 2009. We also expect that our net pension cost will increase by approximately \$50 million to approximately \$440 million in 2010. As this disclosure was made as of December 31, 2009, it does not reflect the impacts of our recent acquisition and divestiture activity. Additionally, volatile economic conditions increase the risk that we may be required to make additional cash contributions to the pension plans and recognize further increases in our net pension cost beyond 2010.

Item 1B. Unresolved Staff Comments.

We have received no written comments regarding our quarterly, annual or current reports from the staff of the SEC that remain unresolved.

Item 2. Properties.

We have 159 manufacturing and processing facilities worldwide. In North America, we have 54 facilities, and outside of North America, we have 105 facilities located in 44 countries. These manufacturing and processing facilities are located throughout the following territories:

<u>Territory</u>	<u>Number of Facilities</u>
U.S.	46
Canada	8
Western Europe	42
Central & Eastern Europe, Middle East and Africa	30
Latin America	15
Asia Pacific	18
Total	<u>159</u>

We own 152 and lease 7 of these manufacturing and processing facilities. It is our practice to maintain all of our plants and properties in good condition, and we believe they are suitable and adequate for our present needs.

We have publicly announced, but not yet completed, the sale or closure of two facilities in Central & Eastern Europe, Middle East and Africa, one facility in Latin America and two facilities in Asia Pacific. The numbers above include these facilities.

We also have 313 distribution centers and depots worldwide. We own 38 of these distribution centers and 3 of these depots, and we lease 124 of these distribution centers and 148 of these depots. In North America, we have 298 distribution centers and depots, more than 75% of which support our direct store delivery systems. Outside North America, we have 15 distribution centers in 10 countries.

These facilities are in good condition, and we believe they have sufficient capacity to meet our distribution needs in the near future. As this disclosure was made as of December 31, 2009, it does not reflect the impacts of our recent acquisition and divestiture activity.

Item 3. Legal Proceedings.

We routinely are involved in legal proceedings, claims, and governmental inspections or investigations ("Legal Matters") arising in the ordinary course of our business.

Competition authorities in the European Union have opened various investigations into possible anticompetitive activity in the fast moving consumer goods ("FMCG") sector, which includes products such as chocolate and coffee. In Germany, the Federal Cartel Office ("FCO") is investigating a number of FMCG companies, including Kraft Foods. We are cooperating and in contact with the FCO. At this time, we cannot predict with certainty the course or the outcome of these investigations.

Currently, we do not believe that the ultimate costs to resolve any of the Legal Matters will have a material effect on our financial results.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2009.

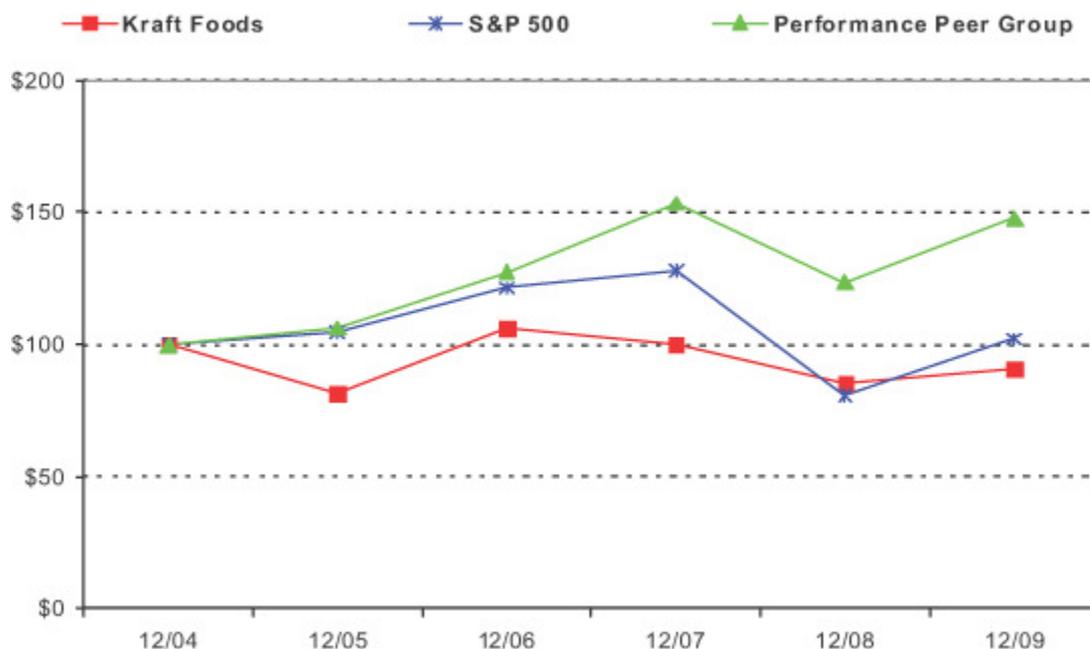
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The principal stock exchange on which our Common Stock is listed is the NYSE. At January 29, 2010, there were approximately 80,887 holders of record of our Common Stock. As part of our February 2, 2010 acquisition of Cadbury plc, we anticipate issuing approximately 260 million additional shares of our Common Stock to the approximately 45,000 Cadbury plc shareholders of record.

Comparison of Five-Year Cumulative Total Return

The following graph compares the cumulative total return on our Common Stock with the cumulative total return of the S&P 500 Index and the performance peer group index. The graph shows total shareholder return assuming \$100 was invested on December 31, 2004 and dividends were reinvested on a quarterly basis.



Date	Kraft Foods	S&P 500	Performance Peer Group
December 2004	\$ 100.00	\$ 100.00	\$ 100.00
December 2005	81.37	104.90	106.24
December 2006	106.15	121.43	127.50
December 2007	100.07	128.09	153.45
December 2008	85.51	80.77	123.55
December 2009	90.63	102.08	147.74

The Kraft Foods performance peer group consists of the following companies considered our market competitors, or that have been selected on the basis of industry, level of management complexity, global focus or industry leadership: Cadbury plc, Campbell Soup Company, The Clorox Company, The Coca-Cola Company, Colgate-Palmolive Company, ConAgra Foods, Inc., Diageo plc, General Mills, Inc., DANONE, H.J. Heinz Company, Hershey Foods Corporation, Kellogg Company, Nestlé S.A., PepsiCo, Inc., The Procter & Gamble Company, Sara Lee Corporation, and Unilever N.V.

Portions of the information called for under Part II Item 5(a) are incorporated by reference to Note 17, *Quarterly Financial Data (Unaudited)*, which is included within Item 8.

This performance graph and other information furnished under this Part II Item 5(a) of this Form 10-K shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

Issuer Purchases of Equity Securities during the Quarter ended December 31, 2009

The following activity represents shares tendered by our employees who used shares to exercise options, and who used shares to pay the related taxes for grants of restricted and deferred stock that vested. Accordingly, these are non-cash transactions.

	<u>Total Number of Shares</u>	<u>Average Price Paid per Share</u>
October 1-31, 2009	38,524	\$ 26.02
November 1-30, 2009	81,302	\$ 26.66
December 1-31, 2009	19,185	\$ 26.96
For the Quarter Ended December 31, 2009	<u>139,011</u>	<u>\$ 26.52</u>

Item 6. Selected Financial Data.

Kraft Foods Inc.

Selected Financial Data—Five Year Review

(in millions of dollars, except per share and employee data)

	2009	2008	2007	2006	2005
Summary of Operations:					
Net revenues	\$ 40,386	\$ 41,932	\$ 35,858	\$ 33,018	\$ 32,779
Cost of sales	25,786	28,088	23,656	21,190	21,115
Operating income	5,524	3,843	4,176	4,158	4,373
Operating margin	13.7%	9.2%	11.6%	12.6%	13.3%
Interest and other expense, net	1,237	1,240	604	510	635
Earnings from continuing operations					
before income taxes	4,287	2,603	3,572	3,648	3,738
Provision for income taxes	1,259	755	1,080	816	1,066
Earnings / (loss) from discontinued operations, net of income taxes	-	1,045	232	233	(33)
Net earnings	3,028	2,893	2,724	3,065	2,639
Noncontrolling interest	7	9	3	5	3
Net earnings attributable to Kraft Foods	3,021	2,884	2,721	3,060	2,636
Basic EPS attributable to Kraft Foods:					
Continuing operations	2.04	1.22	1.56	1.70	1.57
Discontinued operations	-	0.70	0.15	0.14	(0.02)
Net earnings attributable to Kraft Foods	2.04	1.92	1.71	1.84	1.55
Diluted EPS attributable to Kraft Foods:					
Continuing operations	2.03	1.21	1.56	1.70	1.57
Discontinued operations	-	0.69	0.14	0.14	(0.02)
Net earnings attributable to Kraft Foods	2.03	1.90	1.70	1.84	1.55
Dividends declared per share	1.16	1.12	1.04	0.96	0.87
Dividends declared as a % of Basic EPS	56.9%	58.3%	60.8%	52.2%	56.1%
Dividends declared as a % of Diluted EPS	57.1%	58.9%	61.2%	52.2%	56.1%
Weighted-average shares - Basic	1,478	1,505	1,591	1,659	1,699
Weighted-average shares - Diluted	1,486	1,515	1,600	1,661	1,699
Net cash provided by operating activities	5,084	4,141	3,571	3,720	3,464
Capital expenditures	1,330	1,367	1,241	1,169	1,171
Free cash flow*	3,754	2,774	2,330	2,551	2,293
Depreciation	905	963	873	884	869
Property, plant and equipment, net	10,693	9,917	10,778	9,693	9,817
Inventories, net	3,775	3,881	4,238	3,436	3,272
Total assets	66,714	63,173	68,132	55,548	57,597
Long-term debt	18,024	18,589	12,902	7,081	8,475
Total debt	18,990	20,251	21,009	10,821	11,200
Total long-term liabilities	29,251	29,773	23,574	16,520	19,285
Total Kraft Foods Shareholders' Equity	25,876	22,295	27,407	28,536	29,574
Total Equity	25,972	22,356	27,445	28,562	29,600
Book value per common share outstanding	17.51	15.18	17.87	17.44	17.71
Market price per Common Stock					
share - high / low	29.84-20.81	34.97-24.75	37.20-29.95	36.67-27.44	35.65-27.88
Closing price of Common Stock at year end	27.18	26.85	32.63	35.70	28.17
Price / earnings ratio at year end - Basic	13	14	19	19	18
Price / earnings ratio at year end - Diluted	13	14	19	19	18
Shares outstanding at year end	1,478	1,469	1,534	1,636	1,670
Number of employees	97,000	98,000	103,000	90,000	94,000

* Please see Non-GAAP Financial Measures section at the end of Item 7.

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

The following discussions should be read in conjunction with the other sections of this report, including the consolidated financial statements and related notes contained in Item 8 of this Annual Report on Form 10-K.

Description of the Company

We manufacture and market packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products, in approximately 160 countries.

Executive Summary

The following executive summary is intended to provide significant highlights of the discussion and analysis that follows.

- Net revenues in 2009 decreased 3.7% to \$40.4 billion. Net revenues in 2008 increased 16.9% to \$41.9 billion.
- Diluted EPS attributable to Kraft Foods increased 6.8% to \$2.03 in 2009 and increased 11.8% to \$1.90 in 2008. Diluted EPS attributable to Kraft Foods from continuing operations increased 67.8% to \$2.03 in 2009 and decreased 22.4% to \$1.21 in 2008.
- Four priorities will shape our long-term strategy: focusing on growth categories; expanding our footprint in developing markets; expanding our presence in instant consumption channels; and enhancing margins.
- On February 2, 2010, we had received acceptances to our offer of 71.73% of the outstanding ordinary shares of Cadbury plc. The combination of Kraft Foods and Cadbury will create a global powerhouse in snacks, confectionery and quick meals with a rich portfolio of iconic brands. As of February 15, 2010, we had received acceptances of 1,262,356,520 shares representing 91.02% of the outstanding Cadbury ordinary shares.
- On February 8, 2010, we issued \$9.5 billion of senior unsecured notes at a weighted-average effective rate of 5.364% and are primarily using the net proceeds (\$9,379 million) to finance the Cadbury acquisition.
- On January 4, 2010, we entered into an agreement to sell the assets of our North American frozen pizza business to Nestlé USA, Inc. for total consideration of \$3.7 billion. The sale, which is subject to customary conditions, including regulatory clearances, is expected to close in the first quarter of 2010.
- On November 30, 2009, we entered into a revolving credit agreement for a \$4.5 billion three-year senior unsecured revolving credit facility. The agreement replaced our former revolving credit agreement, which was terminated upon the signing of the new agreement.
- Our \$5.0 billion share repurchase authority expired on March 30, 2009. Prior to the expiration, we repurchased 130.9 million shares for \$4.3 billion under the program. We did not repurchase any shares in 2009.
- In 2008, we completed our \$3.0 billion, five-year Restructuring Program. We reversed \$85 million in Restructuring Program charges during 2009, and we recorded charges of \$989 million during 2008 and \$459 million during 2007.
- On August 4, 2008, we completed the split-off of the *Post* cereals business. Accordingly, the *Post* cereals business prior period results were reflected as discontinued operations on the consolidated statement of earnings.
- On November 30, 2007, we acquired the Groupe Danone S.A. global *LU* biscuit business for € 5.1 billion (approximately \$7.6 billion) in cash.

Discussion and Analysis

Strategy

Our strategy is centered on marketing and developing leading consumer brands and pursuing growth opportunities consistent with consumer trends in order to deliver shareholder value. Our increasing investment in snacks and quick meals and our portfolio of iconic brands aligns with growing consumer interest in convenience products and premium brands. Our focus on snacks and confectionery products fits well within our strategy of growth in instant consumption channels. Four priorities will shape our long-term strategy:

- focusing on growth categories to further transform into a leading snack, confectionery and quick meals company. This is being achieved through exiting lower growth and / or lower margin businesses and reinvigorating high cash flow businesses to fund growth;
- expanding our footprint in developing markets to benefit from population growth trends, trading up by consumers and achieving the scale to establish cost-efficient infrastructure in key geographies;
- expanding our presence in instant consumption channels in order to gain share versus grocery channels in the U.S. and European Union; and
- enhancing margins by improving our portfolio mix and reducing costs while investing in quality.

Items Affecting Comparability of Financial Results

Acquisitions and Divestitures

Cadbury Acquisition:

On January 19, 2010, we announced the terms of our final offer for each outstanding ordinary share of Cadbury plc ("Cadbury"), including each ordinary share represented by an American Depositary Share ("Cadbury ADS"), and the Cadbury board of directors recommended that Cadbury shareholders accept the terms of the final offer. Under the terms of the offer, we agreed to pay Cadbury shareholders 500 pence in cash and 0.1874 shares of Kraft Foods Common Stock per Cadbury ordinary share validly tendered and 2,000 pence in cash and 0.7496 shares of Kraft Foods Common Stock per Cadbury ADS validly tendered. This valued each Cadbury ordinary share at 840 pence and each Cadbury ADS at £33.60 (based on the closing price of \$29.58 for a share of Kraft Foods Common Stock on January 15, 2010 and an exchange rate of \$1.63 per £1.00) and valued the entire issued share capital of Cadbury at £11.9 billion (approximately \$19.4 billion) on January 15, 2010, the last trading day before the publication of our final offer. The combination of Kraft Foods and Cadbury will create a global powerhouse in snacks, confectionery and quick meals with a rich portfolio of iconic brands.

On February 2, 2010, all of the conditions to the offer were satisfied or validly waived, the initial offer period expired and a subsequent offer period immediately began. At that point, we had received acceptances of 71.73% of the outstanding Cadbury ordinary shares, including those represented by Cadbury ADSs. The subsequent offer period remains open until further notice and at least 14 days of notice will be given if Kraft Foods decides to close the offer. As of February 15, 2010, we had received acceptances of 1,262,356,520 shares representing 91.02% of the outstanding Cadbury ordinary shares, including those represented by Cadbury ADSs. As we have received acceptances of over 90% of Cadbury shares, we are in the process of acquiring the remaining Cadbury ordinary shares that are not tendered in the offer, including those represented by Cadbury ADSs, through a compulsory acquisition procedure under the United Kingdom Companies Act of 2006, as amended. Additionally, as a condition of the EU Commission's approval of the Cadbury acquisition, we are required to divest confectionery operations in Poland and Romania. As part of our acquisition of Cadbury, we expensed approximately \$40 million in transaction related fees in 2009 as we incurred them, and we also incurred \$40 million in financing fees in 2009 related to the acquisition.

Pizza Divestiture:

On January 4, 2010, we entered into an agreement to sell the assets of our North American frozen pizza business ("Frozen Pizza") to Nestlé USA, Inc. ("Nestlé") for total consideration of \$3.7 billion. Our Frozen Pizza business is a component of our U.S. Convenient Meals and Canada & North America Foodservice segments. The sale, which is subject to customary conditions, including regulatory clearances, includes the *DiGiorno*, *Tombstone* and *Jack's* brands in the U.S., the *Delissio* brand in Canada and the *California Pizza Kitchen* trademark license. It also includes two Wisconsin manufacturing facilities (Medford and Little Chute) and the leases for the pizza depots and delivery

trucks. It is estimated that approximately 3,400 of our employees will transfer with the business to Nestlé. We anticipate that the transaction will close in the first quarter of 2010.

At December 31, 2009, the Frozen Pizza business did not meet the criteria to be considered held-for-sale. Beginning in the first quarter of 2010, the results of the Frozen Pizza business will be presented as a discontinued operation in our consolidated financial statements and prior periods will be restated in a consistent manner. The following reflects the summary results for the Frozen Pizza business that will be treated as a discontinued operation going forward:

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Net revenues	\$ 1,632	\$ 1,440	\$ 1,278
Earnings from operations before income taxes	341	267	237
Provision for income taxes	(123)	(97)	(87)
Net earnings from operations of the Frozen Pizza business	\$ 218	\$ 170	\$ 150

Earnings from operations before income taxes as presented exclude stranded overheads of \$108 million in 2009, \$112 million in 2008 and \$111 million in 2007.

Post Cereals Split-off:

On August 4, 2008, we completed the split-off of the *Post* cereals business into Ralcorp Holdings, Inc. ("Ralcorp"), after an exchange with our shareholders. Accordingly, the *Post* cereals business prior period results were reflected as discontinued operations on the consolidated statement of earnings. The exchange was expected to be tax-free to participating shareholders for U.S. federal income tax purposes.

In this split-off transaction, approximately 46.1 million shares of Kraft Foods Common Stock were tendered for \$1,644 million. Our shareholders had the option to exchange some or all of their shares of Kraft Foods Common Stock and receive shares of common stock of Cable Holdco, Inc. ("Cable Holdco"). Cable Holdco was our wholly owned subsidiary that owned certain assets and liabilities of the *Post* cereals business. In exchange for the contribution of the *Post* cereals business, Cable Holdco issued approximately \$665 million in debt securities, issued shares of its common stock and assumed a \$300 million credit facility. Upon closing, we used the cash equivalent net proceeds, approximately \$960 million, to repay debt.

The *Post* cereals business included such brands as *Honey Bunches of Oats*, *Pebbles*, *Shredded Wheat*, *Selects*, *Grape-Nuts* and *Honeycomb*. Under Kraft Foods, the brands in this transaction were distributed primarily in North America. In addition to the *Post* brands, the transaction included four manufacturing facilities, certain manufacturing equipment and approximately 1,230 employees who joined Ralcorp as part of the transaction.

Pursuant to the *Post* cereals business Transition Services Agreement, we provided certain sales, co-manufacturing, distribution, information technology, and accounting and finance services to Ralcorp through 2009.

Summary results of operations for the *Post* cereals business through August 4, 2008, were as follows:

	For the Years Ended December 31,	
	2008	2007
	(in millions)	
Net revenues	\$ 666	\$ 1,107
Earnings before income taxes	189	369
Provision for income taxes	(70)	(137)
Gain on discontinued operations, net of income taxes	926	-
Earnings and gain from discontinued operations, net of income taxes	\$ 1,045	\$ 232

The following assets of the *Post* cereals business were included in the split-off (in millions):

Inventories, net	\$ 94
Property, plant and equipment, net	425
Goodwill	1,234
Other assets	11
Other liabilities	(3)
Distributed assets of the <i>Post</i> cereals business	<u>\$ 1,761</u>

LU Biscuit Acquisition:

On November 30, 2007, we acquired the Groupe Danone S.A. global *LU* biscuit business ("*LU Biscuit*") for € 5.1 billion (approximately \$7.6 billion) in cash. The acquisition included 32 manufacturing facilities and approximately 14,000 employees. We used borrowings of €5.1 billion to finance this acquisition. Interest incurred on these borrowings was the primary driver of the \$533 million increase in interest expense from 2007 to 2008. *LU Biscuit* reports results from operations on a one month lag; accordingly, there was no effect on our 2007 operating results. On a proforma basis, *LU Biscuit* would have contributed net revenues of \$2.8 billion during 2007, and *LU Biscuit's* contribution to net earnings would have been insignificant to Kraft Foods.

Other Divestitures:

In 2009, we received \$41 million in net proceeds and recorded pre-tax losses of \$6 million on the divestitures of our *Balance* bar operations in the U.S., a juice operation in Brazil and a plant in Spain. We recorded after-tax gains of \$58 million, or \$0.04 per diluted share, on these divestitures, primarily due to the differing book and tax bases of our *Balance* bar operations.

In 2008, we received \$153 million in net proceeds, and recorded pre-tax losses of \$92 million on divestitures, primarily related to a Nordic and Baltic snacks operation and four operations in Spain. We recorded after-tax losses of \$64 million, or \$0.04 per diluted share, on these divestitures.

Included in the 2008 divestitures were the following, which were a condition of the EU Commission's approval of our *LU Biscuit* acquisition:

- We divested a biscuit operation in Spain. From this divestiture, we received \$86 million in net proceeds and recorded pre-tax losses of \$74 million.
- We divested another biscuit operation in Spain and a trademark in Hungary that we had previously acquired as part of the *LU Biscuit* acquisition. As such, the impacts of these divestitures were reflected as adjustments to the purchase price allocations.

In 2007, we received \$216 million in net proceeds and recorded pre-tax gains of \$14 million on the divestitures of our hot cereal assets and trademarks, our sugar confectionery assets in Romania and related trademarks and our flavored water and juice brand assets and related trademarks, including *Veryfine* and *Fruit2O*. We recorded an after-tax loss of \$5 million on these divestitures to reflect the differing book and tax bases of our hot cereal assets and trademarks divestiture.

The aggregate operating results of the divestitures discussed above, other than the divestiture of the *Post* cereals business, were not material to our financial statements in any of the periods presented. Refer to Note 16, *Segment Reporting*, for details of the gains and losses on divestitures by segment. The net impacts to segment operating income from gains and losses on divestitures, along with resulting asset impairment charges, are summarized in the table with the Asset Impairment Charges section below.

Asset Impairment Charges

In 2009, we recorded aggregate asset impairment charges of \$21 million, or \$0.01 per diluted share. During our 2009 review of goodwill and non-amortizable intangible assets, we recorded a \$12 million charge for the impairment of intangible assets in the Netherlands. In addition, during 2009, we recorded a \$9 million asset impairment charge to write off an investment in Norway. We recorded the aggregate asset impairment charges within asset impairment and exit costs.

In 2008, we recorded aggregate asset impairment charges of \$140 million, or \$0.07 per diluted share. During our 2008 review of goodwill and non-amortizable intangible assets, we recorded a \$44 million charge for the impairment of intangible assets in the Netherlands, France and Puerto Rico. In addition, in December 2008, we reached a preliminary agreement to divest a juice operation in Brazil and reached an agreement to sell a cheese plant in Australia. In anticipation of divesting the juice operation in Brazil, we recorded an asset impairment charge of \$13 million in the fourth quarter of 2008. The charge primarily included the write-off of associated intangible assets of \$8 million and property, plant and equipment of \$4 million. In anticipation of selling the cheese plant in Australia, we recorded an asset impairment charge of \$28 million to property, plant and equipment in the fourth quarter of 2008. Additionally, in 2008, we divested a Nordic and Baltic snacks operation, and incurred an asset impairment charge of \$55 million in connection with the divestiture. This charge primarily included the write-off of associated goodwill of \$34 million and property, plant and equipment of \$16 million. We recorded the aggregate asset impairment charges within asset impairment and exit costs.

No impairments resulted from our 2007 annual review of goodwill and non-amortizable intangible assets. Additionally, in 2007, we divested our flavored water and juice brand assets and related trademarks and incurred an asset impairment charge of \$120 million, or \$0.03 per diluted share, in recognition of the divestiture. The charge primarily included the write-off of associated intangible assets of \$70 million and property, plant and equipment of \$47 million and was recorded within asset impairment and exit costs.

The net impacts to segment operating income from gains and losses on divestitures and the related asset impairment charges recorded when these divestitures were considered held-for-sale are summarized in the table below.

	For the Years Ended December 31,		
	2009	2008 (in millions)	2007
Gains / (losses) & asset impairment charges on divestitures, net:			
Kraft Foods North America:			
U.S. Beverages	\$ -	\$ (1)	\$ (126)
U.S. Cheese	-	-	-
U.S. Convenient Meals	-	-	-
U.S. Grocery	-	-	-
U.S. Snacks	11	-	12
Canada & N.A. Foodservice	-	-	-
Kraft Foods Europe	(17)	(146)	-
Kraft Foods Developing Markets	-	(13)	8
Total net impact from divestitures	\$ (6)	\$ (160)	\$ (106)

(1) This segment was formerly known as European Union.

Cost Savings Initiatives

We incurred costs associated with our Cost Savings Initiatives of \$318 million in 2009. These charges were recorded in operations, primarily within the segment operating income of Kraft Foods Europe with the remainder spread across all other segments. The Kraft Foods Europe charges were largely a result of the reorganization of our European operations. Cost Savings Initiatives include exit, disposal and implementation costs. Even though implementation costs were directly attributable to exit and disposal costs, they did not qualify for special accounting treatment as exit or disposal activities. In 2009, our Cost Savings Initiatives primarily included severance charges for benefits received by terminated employees, associated benefit plan costs and other related activities.

2004-2008 Restructuring Program

In 2008, we completed our five-year restructuring program (the "Restructuring Program"). The objectives of this program were to leverage our global scale, realign and lower our cost structure, and optimize capacity. As part of the Restructuring Program, we:

- incurred \$3.0 billion in pre-tax charges reflecting asset disposals, severance and implementation costs;
- announced the closure of 35 facilities and announced the elimination of approximately 18,600 positions;

-
- will use cash to pay for \$2.0 billion of the \$3.0 billion in charges; and
 - anticipate reaching cumulative annualized savings of \$1.4 billion for the total program.

In 2009, we reversed \$85 million of previously accrued Restructuring Program charges (resulting in a favorable impact to diluted EPS of \$0.04). Those reversals related to the following:

- We sold a plant in Spain that we previously announced we would close under our Restructuring Program. Accordingly, we reversed \$35 million in Restructuring Program charges, primarily related to severance, and recorded a \$17 million loss on the divestiture of the plant in 2009. The reversal occurred in our Kraft Foods Europe segment.
- We also reversed \$50 million in Restructuring Program charges, primarily due to planned position eliminations that did not occur. These were primarily the result of redeployment and natural attrition. The majority of these reversals occurred in our Kraft Foods Europe segment, with the remainder spread across all other segments.

We incurred charges from continuing operations under the Restructuring Program of \$989 million in 2008, or \$0.45 per diluted share, and \$447 million in 2007, or \$0.19 per diluted share. Since the inception of the Restructuring Program, we have paid cash of \$1.7 billion of the \$2.0 billion in expected cash payments, including \$176 million paid in 2009. At December 31, 2009, we had an accrual of \$270 million, and we had eliminated approximately 17,300 positions under the Restructuring Program.

In 2008, we implemented a new operating structure built on three core elements: business units, shared services that leverage the scale of our global portfolio, and a streamlined corporate staff. Within the new structure, business units now have full P&L accountability and are staffed accordingly. This also ensures that we are putting our resources closer to where we make decisions that affect our consumers and customers. Our corporate and shared service functions streamlined their organizations to focus on core activities that can more efficiently support the goals of the business units. The intent was to simplify, streamline and increase accountability, with the ultimate goal of generating reliable growth for Kraft Foods. In total, we eliminated approximately 1,400 positions as we streamlined our headquarter functions.

Under the Restructuring Program, we recorded asset impairment and exit costs from continuing operations of \$884 million in 2008 and \$320 million in 2007. We recorded implementation costs from continuing operations of \$105 million in 2008 and \$127 million in 2007. Implementation costs are directly attributable to exit and disposal costs; however, they do not qualify for treatment as exit or disposal costs under guidance related to accounting for costs associated with exit or disposal activities. These costs primarily include the discontinuance of certain product lines, incremental expenses related to the closure of facilities and the reorganization of our European operations discussed below. Management believes the disclosure of implementation charges provides readers of our financial statements greater transparency to the total costs of our Restructuring Program. Refer to Note 6, *Restructuring Costs*, for details of our Restructuring Program by segment.

Provision for Income Taxes

Our effective tax rate was 29.4% in 2009, 29.0% in 2008 and 30.2% in 2007. Our 2009 effective tax included net tax benefits of \$225 million, primarily due to an agreement we reached with the IRS on specific matters related to years 2000 through 2003, settlements with various foreign and state tax authorities, the expiration of the statutes of limitations in various jurisdictions and the divestiture of our *Balance* bar operations in the U.S.

Our 2008 effective tax rate included net tax benefits of \$222 million from discrete tax events. Of the total net tax benefits, approximately \$50 million related to fourth quarter corrections of state, federal and foreign tax liabilities and a third quarter reconciliation of our inventory of deferred tax items that resulted in a write-down of our net deferred tax liabilities. The remaining net tax benefits primarily related to the resolution of various tax audits and the expiration of statutes of limitations in various jurisdictions. Other discrete tax benefits included the impact from divestitures of a Nordic and Baltic snacks operation and several operations in Spain and the tax benefit from impairment charges taken in 2008. In addition, the 2008 tax rate benefited from foreign earnings taxed below the U.S. federal statutory tax rate and from the expected tax benefit of 2008 restructuring expenses. These benefits were only partially offset by state tax expense and certain foreign tax costs.

Our 2007 effective tax rate included net tax benefits of \$184 million, primarily including the effects of dividend repatriation benefits, foreign joint venture earnings and the effect on foreign deferred taxes from lower foreign tax rates enacted in 2007. The 2007 tax rate also benefited from foreign earnings taxed below the U.S. federal statutory tax rate, an increased domestic manufacturing deduction, and the divestiture of our flavored water and juice brand assets and related trademarks. These benefits were partially offset by state tax expense, tax costs associated with the divestiture of our hot cereal assets and trademarks and interest income from Altria related to the transfer of our federal tax contingencies.

As a result of our spin-off from Altria Group, Inc. ("Altria"), Altria transferred our federal tax contingencies to our balance sheet and related interest income of \$77 million, or \$0.03 per diluted share, in 2007. Following our spin-off from Altria, we no longer are a member of the Altria consolidated tax return group, and we file our own federal consolidated income tax returns.

Consolidated Results of Operations

The following discussion compares our consolidated results of operations for 2009 with 2008, and for 2008 with 2007.

Many factors have an impact on the timing of sales to our customers. These factors include, among others, the timing of holidays and other annual or special events, seasonality, significant weather conditions, timing of our own or customer incentive programs and pricing actions, customer inventory programs and general economic conditions. Our domestic operating subsidiaries report year-end results as of the last Saturday of the year, and our international operating subsidiaries generally report year-end results two weeks prior to the last Saturday of the year.

2009 compared with 2008

	For the Years Ended December 31,		<u>\$ change</u>	<u>% change</u>
	<u>2009</u>	<u>2008</u>		
	(in millions, except per share data)			
Net revenues	\$ 40,386	\$ 41,932	\$ (1,546)	(3.7%)
Operating income	5,524	3,843	1,681	43.7%
Earnings from continuing operations	3,028	1,848	1,180	63.9%
Net earnings attributable to Kraft Foods	3,021	2,884	137	4.8%
Diluted earnings per share from continuing operations attributable to Kraft Foods	2.03	1.21	0.82	67.8%
Diluted earnings per share attributable to Kraft Foods	2.03	1.90	0.13	6.8%

Net Revenues - Net revenues decreased \$1,546 million (3.7%) to \$40,386 million in 2009, and organic net revenues increased \$633 million (1.5%) to \$42,210 million as follows. Please see Non-GAAP Financial Measures section at the end of this Item.

Change in net revenues (by percentage point)

Higher net pricing	1.9pp
Unfavorable volume/mix	(0.2)pp
2008 favorable resolution of a Brazilian value added tax claim	<u>(0.2)pp</u>
Total change in organic net revenues	1.5%
Unfavorable foreign currency	(4.5)pp
Impact of divestitures	<u>(0.7)pp</u>
Total change in net revenues	<u>(3.7)%</u>

The decrease in net revenues was partially offset by higher input cost-driven pricing. The unfavorable volume/mix impact on net revenues was driven by volume declines across all reportable segments, except U.S. Beverages and U.S. Convenient Meals, in part due to the discontinuation of less profitable product lines. Unfavorable foreign currency decreased net revenues by \$1,897 million, due primarily to the strength of the U.S. dollar against the euro, Russian ruble, Canadian dollar, Ukrainian hryvnia, British pound, Brazilian real and Polish zloty. The absence of the 2008 favorable resolution of a Brazilian value added tax claim and the impact of divestitures also had an unfavorable impact on net revenues.

Operating Income - Operating income increased \$1,681 million (43.7%) to \$5,524 million in 2009, due to the following (in millions):

	<u>Operating Income</u> (in millions)	<u>Change</u> (percentage point)
2008 Operating Income	\$ 3,843	
Change in operating income		
Higher pricing	781	15.0pp
Favorable volume/mix	195	3.8pp
Lower input costs	97	1.7pp
Lower Restructuring Program costs	1,074	30.2pp
Change in unrealized gains on hedging activities	408	7.9pp
Lower losses on divestitures, net	86	3.3pp
Lower asset impairment charges	119	2.9pp
Lower charges from certain legal matters	22	0.7pp
2008 favorable resolution of Brazilian value added tax claim	(67)	(1.3)pp
Higher marketing, administration and research costs	(694)	(13.4)pp
Unfavorable foreign currency	(322)	(6.3)pp
Other, net	(18)	(0.8)pp
Total change in operating income	1,681	43.7%
2009 Operating Income	\$ 5,524	

Higher pricing reflected the carryover impact of 2008 pricing actions, as we recovered some of our cumulative cost increases from prior years. The favorable volume/mix was driven by strong contributions from Kraft Foods Developing Markets and U.S. Convenient Meals. The decrease in input costs was driven by lower raw material costs, partially offset by higher manufacturing costs. During 2009, we reversed \$85 million in Restructuring Program charges recorded in the prior year, versus the \$989 million in Restructuring Program charges recognized in 2008. We recognized gains of \$203 million on the change in unrealized hedging positions in 2009, versus losses of \$205 million in 2008. We recorded \$6 million of net losses on divestitures in 2009, versus \$92 million of net losses on divestitures in 2008. We recorded asset impairment charges of \$21 million related to intangible assets in the Netherlands and to write off an investment in Norway in 2009, versus asset impairment charges of \$140 million related to certain international intangible assets, the divestiture of our Nordic and Baltic snacks operation, a juice operation in Brazil and a cheese plant in Australia that were recorded in 2008. We had \$22 million of lower charges from certain legal matters. During 2009, we recorded an additional \$50 million of charges for legal matters related to certain of our European operations (see Part I Item 3. Legal Proceedings for a description of these matters). In 2008, we recorded \$72 million in charges for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations. Total marketing, administration and research costs, as recorded in the consolidated statement of earnings, increased \$246 million from 2008. Excluding the impacts of divestitures, foreign currency, charges for certain legal matters and prior year Restructuring Program costs it increased \$694 million over 2008, primarily due to further investments in our brands, including spending on Cost Savings Initiatives, and higher marketing support costs. In addition, unfavorable foreign currency decreased operating income by \$322 million, due primarily to the strength of the U.S. dollar against the British pound, euro, Canadian dollar, Russian ruble, Ukrainian hryvnia, Korean won, Brazilian real, and Polish zloty.

As a result of these changes, operating margin also increased from 9.2% in 2008 to 13.7% in 2009.

Net Earnings and Earnings per Share Attributable to Kraft Foods - Net earnings attributable to Kraft Foods of \$3,021 million increased by \$137 million (4.8%) in 2009. Diluted EPS from continuing operations attributable to Kraft Foods were \$2.03 in 2009, up 67.8% from \$1.21 in 2008. Diluted EPS attributable to Kraft Foods were \$2.03 in 2009, up 6.8% from \$1.90 in 2008, due to the following:

	<u>Net Earnings</u>	<u>Diluted EPS</u>
	(in millions, except per share data)	
2008 Net Earnings Attributable to Kraft Foods	\$ 2,884	\$ 1.90
Change in net earnings attributable to Kraft Foods		
Increases in operations		0.14
Lower charges from certain legal matters		0.01
Lower Restructuring Program costs		0.49
Change in unrealized gains on hedging activities		0.18
Lower asset impairment charges		0.06
Lower losses on divestitures, net		0.08
2008 favorable resolution of Brazilian value added tax claim		(0.03)
Unfavorable foreign currency		(0.14)
Other changes in taxes, including tax settlements		(0.01)
Fewer shares outstanding		0.04
Change in net earnings from continuing operations		0.82
2008 gain on the split-off of our <i>Post</i> cereals business		(0.61)
Decreased earnings from discontinued operations		(0.08)
Change in net earnings from discontinued operations		(0.69)
Total change in net earnings attributable to Kraft Foods	137	0.13
2009 Net Earnings Attributable to Kraft Foods	\$ 3,021	\$ 2.03

2008 compared with 2007

	<u>For the Years Ended</u>		<u>\$ change</u>	<u>% change</u>
	<u>December 31,</u>			
	<u>2008</u>	<u>2007</u>		
	(in millions, except per share data)			
Net revenues	\$ 41,932	\$ 35,858	\$ 6,074	16.9%
Operating income	3,843	4,176	(333)	(8.0%)
Earnings from continuing operations	1,848	2,492	(644)	(25.8%)
Net earnings attributable to Kraft Foods	2,884	2,721	163	6.0%
Diluted earnings per share from continuing operations attributable to Kraft Foods	1.21	1.56	(0.35)	(22.4%)
Diluted earnings per share attributable to Kraft Foods	1.90	1.70	0.20	11.8%

Net Revenues - Net revenues increased \$6,074 million (16.9%) to \$41,932 million in 2008, and organic net revenues increased \$2,394 million (6.8%) to \$37,818 million as follows. Please see Non-GAAP Financial Measures section at the end of this Item.

Change in net revenues (by percentage point)

Higher net pricing	7.4pp
2008 favorable resolution of a Brazilian value added tax claim	0.2pp
Unfavorable volume/mix	(0.8)pp
Total change in organic net revenues	6.8%
2007 <i>LU</i> Biscuit acquisition	8.9pp
Favorable foreign currency	2.0pp
Impact of divestitures	(0.8)pp
Total change in net revenues	16.9%

Net revenues increased as we increased pricing to offset higher input costs and investments in our brands. Unfavorable volume/mix was driven by lower base business shipments, partially offset by improved product mix primarily in Kraft Foods Europe and Kraft Foods Developing Markets. Higher base business shipments in our Canada & N.A. Foodservice, Kraft Foods Developing Markets and U.S. Convenient Meals segments were more than offset by declines in our remaining business segments. Our *LU* Biscuit acquisition was the largest increase to net revenues as no 2007 revenues were recorded due to the year-end acquisition timing. Foreign currency increased net revenues by \$711 million, due primarily to the strength of the euro, Brazilian real, Polish zloty and Canadian dollar against the U.S. dollar.

Operating Income - Operating income declined \$333 million (8.0%) to \$3,843 million in 2008, due to the following (in millions):

	<u>Operating Income</u> (in millions)	<u>Change</u> (percentage point)
2007 Operating Income	\$ 4,176	
Change in operating income		
Higher pricing	2,633	55.9pp
Higher input costs	(2,059)	(43.7)pp
Unfavorable volume/mix	(128)	(2.8)pp
Increased operating income from our <i>LU</i> Biscuit acquisition	438	9.3pp
Integration costs associated with our <i>LU</i> Biscuit acquisition	(78)	(1.6)pp
Higher Restructuring Program costs	(542)	(12.3)pp
Higher marketing, administration and research costs	(280)	(5.9)pp
Change in unrealized losses on hedging activities	(221)	(4.7)pp
Higher losses on divestitures, net	(106)	(2.6)pp
Charges from certain legal matters	(72)	(1.6)pp
Higher asset impairment charges	(20)	(0.2)pp
2008 favorable resolution of a Brazilian value added tax claim	67	1.4pp
Favorable foreign currency	61	1.3pp
Other, net	(26)	(0.5)pp
Total change in operating income	(333)	(8.0)%
2008 Operating Income	\$ 3,843	

Higher pricing outpaced our input cost increases during the year, as we recovered cumulative cost increases from prior years. The increase in input costs was primarily related to higher raw material costs. The unfavorable volume/mix was driven by declines across most segments within Kraft Foods North America, partially offset by volume/mix gains in Kraft Foods Developing Markets and Kraft Foods Europe. The increase in unrealized losses on hedging activities primarily related to energy derivatives, including heating oil (used primarily to hedge transportation costs) and natural gas contracts. Our *LU* Biscuit acquisition, net of integration costs, increased operating income by \$360 million. Total marketing, administration and research costs, as recorded in the consolidated statement of earnings, increased \$1,275 million over the prior year. Excluding the impacts of acquisitions, divestitures, foreign currency and

charges for legal matters it increased \$280 million over the prior year. The net impact of losses on divestitures and asset impairments had an unfavorable impact of \$126 million on operating income versus the prior year. The charges for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations. Charges for legal matters were recorded within marketing, administration and research costs. In addition, foreign currency increased operating income by \$61 million, due primarily to the strength of the Brazilian real, euro, Polish zloty and Canadian dollar against the U.S. dollar.

As a result of these changes, operating margin also decreased from 11.6% in 2007 to 9.2% in 2008.

Net Earnings and Earnings per Share Attributable to Kraft Foods - Net earnings attributable to Kraft Foods of \$2,884 million increased by \$163 million (6.0%) in 2008. Diluted EPS from continuing operations attributable to Kraft Foods were \$1.21 in 2008, down 22.4% from \$1.56 in 2007. Diluted EPS attributable to Kraft Foods were \$1.90, up 11.8% from \$1.70 in 2007, due to the following:

	<u>Net Earnings</u>	<u>Diluted EPS</u>
	(in millions, except per share data)	
2007 Net Earnings Attributable to Kraft Foods	\$ 2,721	\$ 1.70
Change in net earnings attributable to Kraft Foods		
Increases in operations		0.03
Impact to operations from our <i>LU</i> Biscuit acquisition		0.15
Higher Restructuring Program costs		(0.26)
Change in unrealized losses on hedging activities		(0.09)
Higher asset impairment charges		(0.04)
Higher losses on divestitures, net		(0.04)
Charges from certain legal matters		(0.03)
2008 favorable resolution of a Brazilian value added tax claim		0.03
Higher interest and other expense, net		(0.23)
2007 interest from Altria tax reserve		(0.03)
Favorable foreign currency		0.02
Deferred tax reconciliation		0.01
Other changes in taxes		0.03
Fewer shares outstanding		0.10
Change in net earnings from continuing operations		(0.35)
2008 gain on the split-off of our <i>Post</i> cereals business		0.61
Decreased earnings from discontinued operations		(0.06)
Change in net earnings from discontinued operations		0.55
Total change in net earnings attributable to Kraft Foods	163	0.20
2008 Net Earnings Attributable to Kraft Foods	\$ 2,884	\$ 1.90

Results of Operations by Business Segment

We manage and report operating results through three geographic units, Kraft Foods North America, Kraft Foods Europe and Kraft Foods Developing Markets. We manage the operations of Kraft Foods North America and Kraft Foods Europe by product category, and we manage the operations of Kraft Foods Developing Markets by location. Our reportable segments are U.S. Beverages, U.S. Cheese, U.S. Convenient Meals, U.S. Grocery, U.S. Snacks, Canada & N.A. Foodservice, Kraft Foods Europe (formerly known as European Union) and Kraft Foods Developing Markets.

Effective January 2009, we began implementing changes to our operating structure based on our *Organizing For Growth* initiative and the Kraft Foods Europe Reorganization. In line with our strategies, we are reorganizing our European operations to function on a pan-European centralized category management and value chain model, and we changed how we work in Europe in two key ways:

- We transitioned our European Biscuit, Chocolate, Coffee and Cheese categories to fully integrated business units, further strengthening our focus on these core categories. To ensure decisions are made

faster and closer to our customers and consumers, each category is fully accountable for its financial results, including marketing, manufacturing and R&D. Category leadership, based in Zurich, Switzerland, reports to the Kraft Foods Europe President. These business units now comprise the Kraft Foods Europe segment.

- We aligned the reporting of our Central Europe operations into our Kraft Foods Developing Markets segment to help build critical scale in these countries. We operate a country-led model in these markets.

The following discussion compares our results of operations for each of our reportable segments for 2009 with 2008, and for 2008 with 2007.

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Net revenues:			
Kraft Foods North America:			
U.S. Beverages	\$ 3,057	\$ 3,001	\$ 2,990
U.S. Cheese	3,605	4,007	3,745
U.S. Convenient Meals	4,496	4,240	3,905
U.S. Grocery	3,453	3,389	3,277
U.S. Snacks	4,964	5,025	4,879
Canada & N.A. Foodservice	4,087	4,294	4,080
Kraft Foods Europe	8,768	9,728	7,007
Kraft Foods Developing Markets	7,956	8,248	5,975
Net revenues	<u>\$ 40,386</u>	<u>\$ 41,932</u>	<u>\$ 35,858</u>

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Operating income:			
Kraft Foods North America:			
U.S. Beverages	\$ 511	\$ 381	\$ 346
U.S. Cheese	667	563	487
U.S. Convenient Meals	510	339	319
U.S. Grocery	1,146	1,009	1,022
U.S. Snacks	723	638	716
Canada & N.A. Foodservice	527	448	443
Kraft Foods Europe	785	182	455
Kraft Foods Developing Markets	936	815	588
Unrealized gains / (losses) on hedging activities	203	(205)	16
Certain U.S. pension plan costs	(165)	-	-
General corporate expenses	(293)	(304)	(203)
Amortization of intangibles	(26)	(23)	(13)
Operating income	<u>\$ 5,524</u>	<u>\$ 3,843</u>	<u>\$ 4,176</u>

As discussed in Note 16, *Segment Reporting*, management uses segment operating income to evaluate segment performance and allocate resources. We believe it is appropriate to disclose this measure to help investors analyze segment performance and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which are a component of cost of sales), certain components of our U.S. pension plan cost (which is a component of cost of sales and marketing, administration and research costs), general corporate expenses (which are a component of marketing, administration and research costs) and amortization of intangibles for all periods presented. In 2009, we began excluding certain components of our U.S. pension plan cost from segment operating income because we centrally manage pension plan funding decisions and the determination of discount rate, expected rate of return on plan assets and other actuarial assumptions. Therefore, we allocate only the service cost component of our U.S. pension plan expense to segment operating income. We exclude the unrealized gains and losses on hedging activities from segment operating income in order to provide better transparency of our segment operating results. Once realized, the gains and losses on hedging activities are recorded within segment operating results.

In 2009, unrealized gains on hedging activities of \$203 million primarily resulted from the 2008 unrealized losses on energy derivatives becoming realized in 2009. In 2008, unrealized losses on hedging activities of \$205 million were primarily related to energy derivatives, including heating oil (used primarily to hedge transportation costs) and natural gas contracts. In 2009, general corporate expenses included \$50 million of charges for legal matters related to certain of our European operations (see Part I Item 3. Legal Proceedings for a description of these matters). In 2008, we recorded \$72 million in charges for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations and represented the primary reason general corporate expenses increased \$101 million in 2008.

We incurred costs associated with our Cost Savings Initiatives of \$318 million in 2009. These charges were recorded in operations, primarily within the segment operating income of Kraft Foods Europe with the remainder spread across all other segments. In 2009, we also reversed \$85 million of Restructuring Program costs, with the majority relating to our Kraft Foods Europe segment while the remainder was spread across all other segments. We incurred Restructuring Program costs of \$989 million in 2008 and \$459 million in 2007. Refer to Note 6, *Restructuring Costs*, for a breakout of the 2008 and 2007 charges by segment. We also incurred asset impairment charges of \$21 million in 2009 related to our Kraft Foods Europe segment, \$140 million in 2008 related to our Kraft Foods Europe and Kraft Foods Developing Markets segments, and \$120 million in 2007 related to our U.S. Beverages segment. Refer to Note 5, *Goodwill and Intangible Assets*, for further details of these charges.

U.S. Beverages

	For the Years Ended December 31,		\$ change	% change
	2009	2008		
	(in millions)			
Net revenues	\$ 3,057	\$ 3,001	\$ 56	1.9%
Segment operating income	511	381	130	34.1%

	For the Years Ended December 31,		\$ change	% change
	2008	2007		
	(in millions)			
Net revenues	\$ 3,001	\$ 2,990	\$ 11	0.4%
Segment operating income	381	346	35	10.1%

2009 compared with 2008:

Net revenues increased \$56 million (1.9%), due to favorable volume/mix (1.3 pp) and higher net pricing (0.6 pp). Favorable volume/mix was driven by higher shipments in ready-to-drink and powdered beverages. Ready-to-drink beverages grew from successful quality and marketing investments in *Capri Sun*, partially offset by the discontinuation of less profitable ready-to-drink product lines. Powdered beverages volume increased primarily due to strong gains in *Kool-Aid* and *Tang*. Coffee volume declined as gains in *Maxwell House*, *Starbucks* and *Tassimo* were more than offset by declines in *Gevalia*. These favorable factors were partially offset by unfavorable mix driven by the higher ready-to-drink volume. Higher net pricing was primarily related to ready-to-drink beverages, partially offset by lower input cost-driven pricing in coffee.

Segment operating income increased \$130 million (34.1%), due primarily to lower costs due to the completion of the Restructuring Program, lower raw material costs, higher net pricing, favorable volume/mix (higher shipments, net of unfavorable product mix), lower manufacturing costs and lower marketing, administration and research costs, partially offset by higher marketing support costs.

2008 compared with 2007:

Net revenues increased \$11 million (0.4%), due to higher net pricing (4.9 pp), partially offset by the impact of divestitures (2.4 pp) and unfavorable volume/mix (2.1 pp). Higher net pricing reflected input cost-driven pricing in coffee and lower promotional spending in ready-to-drink beverages. Unfavorable volume/mix was driven by lower shipments, partially offset by improved product mix due to growth in *Tassimo*. Lower shipments were driven by declines in ready-to-drink beverages, primarily *Capri Sun*, partially offset by gains in powdered beverages, primarily *Country Time* and *Kool-Aid*, and *Maxwell House* mainstream coffee.

Segment operating income increased \$35 million (10.1%), due primarily to higher net pricing, a 2007 asset impairment charge related to our flavored water and juice brand assets and related trademarks, the impact of divestitures and lower manufacturing costs. These favorable factors were partially offset by higher raw material costs, higher Restructuring Program costs, unfavorable volume/mix and higher marketing, administration and research costs.

U.S. Cheese

	For the Years Ended December 31,		<u>\$ change</u>	<u>% change</u>
	<u>2009</u>	<u>2008</u>		
	(in millions)			
Net revenues	\$ 3,605	\$ 4,007	\$ (402)	(10.0%)
Segment operating income	667	563	104	18.5%

	For the Years Ended December 31,		<u>\$ change</u>	<u>% change</u>
	<u>2008</u>	<u>2007</u>		
	(in millions)			
Net revenues	\$ 4,007	\$ 3,745	\$ 262	7.0%
Segment operating income	563	487	76	15.6%

2009 compared with 2008:

Net revenues decreased \$402 million (10.0%), due to lower net pricing (8.8 pp) and unfavorable volume/mix (1.2 pp). Lower net pricing was due to lower input cost-driven pricing combined with increases in promotional spending. Net revenues also declined due to lower shipments, primarily in cultured and natural cheese products.

Segment operating income increased \$104 million (18.5%), due primarily to lower raw material costs (primarily lower dairy costs), lower manufacturing costs, lower costs due to the completion of the Restructuring Program and lower marketing, administration and research costs, partially offset by lower net pricing and higher marketing support costs.

2008 compared with 2007:

Net revenues increased \$262 million (7.0%), due to higher net pricing (14.1 pp), partially offset by unfavorable volume/mix (7.1 pp). Higher net pricing reflected input cost-driven pricing, partially offset by increased promotional spending in our natural cheese category. Unfavorable volume/mix was driven primarily by shipment declines in all of our major cheese categories, partially offset by new product innovations, primarily *Kraft Bagel-fuls*.

Segment operating income increased \$76 million (15.6%), due primarily to higher net pricing and lower Restructuring Program costs, partially offset by higher raw material costs, unfavorable volume/mix, higher manufacturing costs and higher marketing, administration and research costs.

U.S. Convenient Meals

	For the Years Ended December 31,		<u>\$ change</u>	<u>% change</u>
	<u>2009</u>	<u>2008</u>		
	(in millions)			
Net revenues	\$ 4,496	\$ 4,240	\$ 256	6.0%
Segment operating income	510	339	171	50.4%

	For the Years Ended December 31,		<u>\$ change</u>	<u>% change</u>
	<u>2008</u>	<u>2007</u>		
	(in millions)			
Net revenues	\$ 4,240	\$ 3,905	\$ 335	8.6%
Segment operating income	339	319	20	6.3%

2009 compared with 2008:

Net revenues increased \$256 million (6.0%), due to favorable volume/mix (4.6 pp) and higher net pricing (1.4 pp). Net revenues increased in meats, primarily due to higher net pricing (increased input cost-driven pricing, net of increased promotional spending). Also, volume increased due to higher shipments in bacon, cold cuts and hot dogs, partially offset by the discontinuation of less profitable product lines. In pizza, net revenues increased due to the volume growth in our *DiGiorno* and *California Pizza Kitchen* premium brands, as well as growth in our *Jack's* and *Tombstone* pizza brands, partially offset by the unfavorable impact of the discontinuation of less profitable product lines. This was partially offset by lower net pricing driven by increased promotional spending.

Segment operating income increased \$171 million (50.4%), due primarily to favorable volume/mix (higher shipments and improved product mix), higher net pricing, lower raw material costs, lower costs due to the completion of the Restructuring Program and lower manufacturing costs. These favorable factors were partially offset by higher marketing support costs and higher marketing, administration and research costs.

Frozen Pizza Divestiture - On January 4, 2010, we entered into an agreement to sell the assets of our Frozen Pizza business to Nestlé for total consideration of \$3.7 billion. The sale, which is subject to customary conditions, including regulatory clearances, includes the *DiGiorno*, *Tombstone* and *Jack's* brands in the U.S., the *Delissio* brand in Canada and the *California Pizza Kitchen* trademark license.

U.S. pizza net revenues increased \$174 million (13.5%) to \$1,467 million in 2009, due to favorable volume/mix (15.4 pp), partially offset by lower net pricing (1.9 pp). Favorable volume/mix was driven by volume gains in *DiGiorno* and *California Pizza Kitchen* premium brands, as well as growth in our *Jack's* and *Tombstone* pizza brands. This was partially offset by lower net pricing driven by increased promotional spending. Canada pizza net revenues were \$165 million in 2009.

U.S. pizza segment operating income increased \$62 million (29.0%) to \$276 million in 2009, due primarily to favorable volume/mix (higher shipments and improved product mix), lower raw material costs and lower manufacturing costs. These favorable factors were partially offset by higher marketing support costs, higher marketing, administration and research costs and lower net pricing. Canada pizza segment operating income was \$65 million in 2009.

The combined segment operating income for Frozen Pizza as presented excludes stranded overheads of \$108.

2008 compared with 2007:

Net revenues increased \$335 million (8.6%), due to higher net pricing (5.6 pp) and favorable volume/mix (3.0 pp). Net revenues increased in meats due to higher net pricing, driven by input cost-driven pricing in sandwich meats, *Lunchables* and hot dogs. Also contributing to meats net revenue growth was higher shipments of bacon, as well as new product introductions, including *Oscar Mayer Deli Creations* sandwiches (flatbreads) and *Oscar Mayer Deli Fresh* meats (shaved singles and carved). In pizza, net revenues increased due to higher input cost-driven pricing, net of increased promotional spending, volume growth in *DiGiorno* and *California Pizza Kitchen* premium brands and the launch of the *For One* product line of individual size pizzas.

Segment operating income increased \$20 million (6.3%), due primarily to higher net pricing, favorable volume/mix and lower marketing support costs, partially offset by higher raw material costs, higher marketing, administration and research costs, higher manufacturing costs and higher Restructuring Program costs.

U.S. Grocery

	For the Years Ended December 31,		\$ change	% change
	2009	2008		
	(in millions)			
Net revenues	\$ 3,453	\$ 3,389	\$ 64	1.9%
Segment operating income	1,146	1,009	137	13.6%

	For the Years Ended December 31,		\$ change	% change
	2008	2007		
	(in millions)			
Net revenues	\$ 3,389	\$ 3,277	\$ 112	3.4%
Segment operating income	1,009	1,022	(13)	(1.3%)

2009 compared with 2008:

Net revenues increased \$64 million (1.9%), due to higher net pricing (3.5 pp), partially offset by unfavorable volume/mix (1.6 pp). Net revenues increased due to higher input cost-driven pricing across several of our key categories, primarily spoonable salad dressings, dry packaged desserts and ready-to-eat desserts. Net revenues growth was partially offset by lower volume, net of favorable product mix. This reflected the 2008 exit of *Handi-Snacks* ready-to-eat desserts, as well as lower shipments in pourable and spoonable salad dressings, *Jell-O* ready-to-eat-desserts, barbecue sauce and *Cool Whip* whipped topping, which were partially offset by growth in *Kraft* macaroni and cheese dinners.

Segment operating income increased \$137 million (13.6%), due primarily to higher net pricing, lower costs due to the completion of the Restructuring Program and lower manufacturing costs, partially offset by higher marketing support costs, unfavorable volume/mix (lower shipments, net of improved product mix) and higher marketing, administration and research costs.

2008 compared with 2007:

Net revenues increased \$112 million (3.4%), due to higher net pricing (6.2 pp), partially offset by unfavorable volume/mix (2.8 pp). Net revenues increased due to higher input cost-driven pricing across our key categories, primarily spoonable and pourable salad dressings and *Kraft* macaroni and cheese dinners. In addition, net revenues growth was impacted by unfavorable volume/mix driven by lower shipments in spoonable and pourable salad dressings, ready-to-eat desserts and barbecue sauce, partially offset by volume gains in *Kraft* macaroni and cheese dinners.

Segment operating income decreased \$13 million (1.3%), due to higher raw material costs, unfavorable volume/mix (lower shipments, net of improved product mix), higher marketing, administration and research costs and higher Restructuring Program costs, partially offset by higher net pricing and lower marketing support costs.

U.S. Snacks

	For the Years Ended December 31,		\$ change	% change
	2009	2008		
	(in millions)			
Net revenues	\$ 4,964	\$ 5,025	\$ (61)	(1.2%)
Segment operating income	723	638	85	13.3%

	For the Years Ended December 31,		\$ change	% change
	2008	2007		
	(in millions)			
Net revenues	\$ 5,025	\$ 4,879	\$ 146	3.0%
Segment operating income	638	716	(78)	(10.9%)

2009 compared with 2008:

Net revenues decreased \$61 million (1.2%), due to unfavorable volume/mix (1.7 pp) and the impact of divestitures (0.2 pp), partially offset by higher net pricing (0.7 pp). Biscuits net revenues increased, driven by higher input cost-driven pricing, partially offset by unfavorable volume/mix (unfavorable product mix, net of higher shipments). Biscuits volume gain was due to higher shipments primarily in *Ritz* crackers, *Oreo* cookies, *Triscuit* crackers and *Chips Ahoy!* cookies. Snack bars net revenues decreased, primarily due to volume declines in breakfast bars. Snack nuts net revenues decreased, primarily driven by lower net pricing, due to higher promotional spending, and unfavorable volume/mix reflecting lower volume due primarily to the recall of certain products containing pistachios in March 2009.

Segment operating income increased \$85 million (13.3%), due primarily to lower costs due to the completion of the Restructuring Program, lower marketing support costs, lower manufacturing costs, higher net pricing, the gain on the divestiture of our *Balance* bar operations in the U.S. and lower marketing, administration and research costs. These favorable factors were partially offset by higher raw material costs and unfavorable volume/mix (unfavorable product mix and lower shipments, including the recall of certain products containing pistachios).

2008 compared with 2007:

Net revenues increased \$146 million (3.0%), due to higher net pricing (8.4 pp) and the impact of our *LU* Biscuit acquisition (0.4 pp), partially offset by unfavorable volume/mix (5.6 pp) and the impact of divestitures (0.2 pp). Biscuits net revenues increased, driven by higher input cost-driven pricing and lower promotional spending, partially offset by unfavorable volume/mix. Biscuits unfavorable volume/mix was driven by base business volume declines in *Wheat Thins* crackers, *Cheese Nips* crackers and *Chips Ahoy!* cookies, partially offset by gains in *Oreo* cookies as well as new product introductions including *Kraft* macaroni and cheese crackers and *Nilla Cakesters* snack cakes. Snack bars net revenues decreased, driven by volume declines in breakfast bars, primarily due to product pruning. Snack nuts net revenues decreased, driven by lower volume, partially offset by higher net pricing.

Segment operating income decreased \$78 million (10.9%), due to unfavorable volume/mix (lower shipments and unfavorable mix), higher raw material costs, higher manufacturing costs, higher Restructuring Program costs, higher marketing, administration and research costs, a 2007 gain on the divestiture of our hot cereal assets and trademarks and the impact of divestitures. These unfavorable variances were partially offset by higher net pricing and lower marketing support costs.

Canada & N.A. Foodservice

	For the Years Ended December 31,						
	2009		2008		\$ change	% change	
	(in millions)						
Net revenues	\$	4,087	\$	4,294	\$	(207)	(4.8%)
Segment operating income		527		448		79	17.6%

	For the Years Ended December 31,						
	2008		2007		\$ change	% change	
	(in millions)						
Net revenues	\$	4,294	\$	4,080	\$	214	5.2%
Segment operating income		448		443		5	1.1%

2009 compared with 2008:

Net revenues decreased \$207 million (4.8%), due to the significant impact of unfavorable foreign currency (4.6 pp) and unfavorable volume/mix (0.2 pp). In Canada, net revenues increased, driven by volume gains across all retail businesses and higher net pricing, partially offset by unfavorable foreign currency. In N.A. Foodservice, net revenues decreased, driven by lower volume, due to industry-wide declines in restaurant traffic and the discontinuation of less profitable product lines, lower input cost-driven pricing and unfavorable foreign currency.

Segment operating income increased \$79 million (17.6%), due primarily to lower costs due to the completion of the Restructuring Program and lower raw material costs, partially offset by unfavorable foreign currency, higher manufacturing costs and higher marketing support costs.

2008 compared with 2007:

Net revenues increased \$214 million (5.2%), due primarily to higher net pricing (3.9 pp), favorable foreign currency (1.3 pp) and favorable volume/mix (0.3 pp), partially offset by the impact of divestitures (0.4 pp). In Canada, net revenues growth was primarily driven by volume gains across all retail businesses, favorable foreign currency and higher net pricing. In N.A. Foodservice, net revenues increased, primarily driven by higher input cost-driven pricing, partially offset by unfavorable volume/mix.

Segment operating income increased \$5 million (1.1%), due primarily to higher net pricing, lower manufacturing costs, lower marketing, administration and research costs, favorable volume/mix (higher shipments, net of unfavorable mix) and favorable foreign currency. These favorable variances were partially offset by higher raw material costs, higher Restructuring Program costs and higher marketing support costs.

Kraft Foods Europe

	For the Years Ended December 31,		\$ change	% change
	2009	2008		
	(in millions)			
Net revenues	\$ 8,768	\$ 9,728	\$ (960)	(9.9%)
Segment operating income	785	182	603	100.0+%

	For the Years Ended December 31,		\$ change	% change
	2008	2007		
	(in millions)			
Net revenues	\$ 9,728	\$ 7,007	\$ 2,721	38.8%
Segment operating income	182	455	(273)	(60.0%)

2009 compared with 2008:

Net revenues decreased \$960 million (9.9%), due to the significant impact of unfavorable foreign currency (6.7 pp), unfavorable volume/mix (2.8 pp) and the impact of divestitures (2.2 pp), partially offset by higher net pricing (1.8 pp). Unfavorable foreign currency primarily reflected the strength of the U.S. dollar versus the euro and British pound. In addition, volume declines in coffee, biscuits, chocolate and cheese and the discontinuation of less profitable product lines drove net revenues lower. These unfavorable revenue drivers were partially offset by higher net pricing, primarily in chocolate, coffee and biscuits.

Segment operating income increased \$603 million (100+%), due to lower costs due to the completion of the Restructuring Program (including the reversal of prior year costs), higher net pricing, the 2008 net loss on the divestitures of several operations in Spain, 2008 asset impairment charges related to certain international intangible assets and the divestiture of our Nordic and Baltic snacks operation, lower manufacturing costs and lower raw material costs. These favorable variances were partially offset by unfavorable foreign currency, higher marketing support costs, higher non-recurring costs associated with the Kraft Foods Europe Reorganization, higher marketing, administration and research costs (primarily spending on Cost Savings Initiatives), asset impairment charges related to certain intangible assets in the Netherlands and to write off an investment in Norway, the net loss on the divestiture of a plant in Spain, unfavorable volume/mix (lower shipments, net of improved product mix) and the impact of divestitures.

2008 compared with 2007:

Net revenues increased \$2,721 million (38.8%), due to the impact of our LU Biscuit acquisition (33.1 pp), favorable foreign currency (5.5 pp) and higher net pricing (4.7 pp), partially offset by the impact of divestitures (3.5 pp) and unfavorable volume/mix (1.0 pp). Higher input cost-driven pricing was partially offset by higher promotional spending. Unfavorable volume/mix was driven by declines in coffee and cheese shipments, partially offset by gains in chocolate.

Segment operating income decreased \$273 million (60.0%), due primarily to higher raw material costs, higher Restructuring Program costs, the net loss on the divestitures of several operations in Spain, asset impairment charges related to certain international intangible assets and the divestiture of our Nordic and Baltic snacks operation, higher marketing, administration and research costs and the impact of divestitures. These unfavorable

variances were partially offset by higher net pricing, the impact of our *LU* Biscuit acquisition (net of associated integration costs), lower manufacturing costs, lower marketing support costs and favorable volume/mix (improved mix, net of lower shipments).

Kraft Foods Europe Reorganization - The reorganization of our European operations to function on a pan-European centralized category management and value chain model was completed in 2009 for our Chocolate, Coffee and Cheese categories. Significant progress was made in 2009 related to the integration of our Europe Biscuits business, and we expect the integration to be completed by mid-2010. The European Principal Company ("EPC") will manage the European categories centrally and make decisions for all aspects of the value chain, except for sales and distribution. The European subsidiaries will execute sales and distribution locally, and the local production companies will act as toll manufacturers on behalf of the EPC. The EPC legal entity has been incorporated as Kraft Foods Europe GmbH in Zurich, Switzerland. As part of the reorganization, we incurred \$32 million of severance costs, \$25 million of implementation costs and \$56 million of other non-recurring costs during 2009; we incurred \$16 million of restructuring costs, \$39 million of implementation costs and \$11 million of other non-recurring costs during 2008; and we incurred \$21 million of restructuring costs, \$24 million of implementation costs and \$10 million of other non-recurring costs during 2007. Through 2009, we have incurred charges of \$241 million related to our Kraft Foods Europe Reorganization, including the above mentioned costs. We expect to incur approximately \$40 million in additional charges in 2010 to complete the integration of the Europe Biscuits business. In 2009, these charges were recorded within cost of sales and marketing, administration and research costs. The 2008 and 2007 restructuring and implementation costs were recorded as part of our overall Restructuring Program. Other non-recurring costs relating to our Kraft Foods Europe Reorganization were recorded as marketing, administration and research costs. Management believes the disclosure of implementation and other non-recurring charges provides readers of our financial statements greater transparency to the total costs of our Kraft Foods Europe Reorganization.

Kraft Foods Developing Markets

	For the Years Ended			
	December 31,		\$ change	% change
	2009	2008		
	(in millions)			
Net revenues	\$ 7,956	\$ 8,248	\$ (292)	(3.5%)
Segment operating income	936	815	121	14.8%

	For the Years Ended			
	December 31,		\$ change	% change
	2008	2007		
	(in millions)			
Net revenues	\$ 8,248	\$ 5,975	\$ 2,273	38.0%
Segment operating income	815	588	227	38.6%

2009 compared with 2008:

Net revenues decreased \$292 million (3.5%), due to the significant impact of unfavorable foreign currency (12.9 pp), the absence of the 2008 favorable resolution of a Brazilian value added tax claim (0.8 pp) and the impact of divestitures (0.5 pp), partially offset by higher net pricing (8.9 pp) and favorable volume/mix (1.8 pp). In Central and Eastern Europe, Middle East and Africa, net revenues decreased, driven primarily by unfavorable foreign currency, partially offset by higher net pricing across most of the region and favorable volume/mix (improved product mix, net of lower shipments). In Latin America, net revenues increased, primarily driven by higher net pricing across the region and favorable volume/mix (lower shipments, net of improved product mix), partially offset by unfavorable foreign currency and the absence of the 2008 favorable resolution of a Brazilian value added tax claim. In Asia Pacific, net revenues increased, due to higher net pricing across most of the region and favorable volume/mix (improved product mix, net of lower shipments), primarily in China, partially offset by unfavorable foreign currency.

Segment operating income increased \$121 million (14.8%), due primarily to higher net pricing, favorable volume/mix (improved product mix, net of lower shipments), lower costs due to the completion of the Restructuring Program (including the reversal of prior year costs) and 2008 asset impairment charges related to certain international intangible assets, a juice operation in Brazil and a cheese plant in Australia. These favorable variances were partially offset by higher raw material costs, higher manufacturing costs, unfavorable foreign currency, higher marketing, administration and research costs, higher marketing support costs and the absence of the 2008 favorable resolution of a Brazilian value added tax claim.

Venezuela - In the fourth quarter of 2009, the Venezuelan economy was classified as highly inflationary under accounting principles generally accepted in the United States of America ("U.S. GAAP"). Effective January 1, 2010, our Venezuelan subsidiary is being accounted for under highly inflationary accounting rules, which principally means all transactions are recorded in U.S. dollars. Venezuela has three exchange rates: the official rate, the consumer staples rate and the secondary (or parallel) rate. We have historically used and will continue to use the official rate to translate our Venezuelan operations. However, prior to this change in accounting, cash that we had exchanged into U.S. dollars using the secondary market was carried at that rate. Upon the change to highly inflationary accounting, we were required to translate our U.S. dollars on hand using the official rate. Additionally, on January 8, 2010, the Venezuelan government devalued its currency. Accordingly, we were required to revalue our net assets in Venezuela and we recorded an insignificant loss, which will be reflected in our first quarter 2010 results. We expect our 2010 operating results to be negatively impacted by \$75 million to \$100 million as a result of the aforementioned devaluation. This disclosure does not reflect the impacts of our recent acquisition activity.

2008 compared with 2007:

Net revenues increased \$2,273 million (38.0%), due primarily to the impact of our *LU Biscuit* acquisition (15.9 pp), higher net pricing (11.0 pp), favorable volume/mix (5.4 pp), favorable foreign currency (4.7 pp) and the favorable resolution of a Brazilian value added tax claim (1.1 pp). In Central & Eastern Europe, Middle East & Africa, net revenues increased, driven by higher net pricing across the region, volume growth in chocolate, biscuits and coffee categories, our *LU Biscuit* acquisition and favorable foreign currency. In Latin America, net revenues increased, driven by favorable foreign currency, higher net pricing, the favorable resolution of a value added tax claim and favorable volume/mix in Brazil; higher net pricing and improved product mix in Argentina; and higher net pricing and favorable volume/mix in Venezuela. In Asia Pacific, net revenues increased due primarily to our *LU Biscuit* acquisition, higher net pricing across the region and favorable foreign currency.

Segment operating income increased \$227 million (38.6%) due to higher net pricing, favorable volume/mix, the impact of our *LU Biscuit* acquisition (net of associated integration costs), the favorable resolution of a Brazilian value added tax claim, and favorable foreign currency. These favorable variances were partially offset by higher raw material costs, higher manufacturing costs, higher marketing, administration and research costs, higher Restructuring Program costs, higher marketing support costs, 2008 asset impairment charges related to certain international intangible assets, a juice operation in Brazil and a cheese plant in Australia and a 2007 gain on the divestiture of our sugar confectionery assets in Romania and related trademarks.

Critical Accounting Policies

Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements includes a summary of the significant accounting policies we used to prepare our consolidated financial statements. We have discussed the selection and disclosure of our critical accounting policies and estimates with our Audit Committee. The following is a review of the more significant assumptions and estimates, as well as the accounting policies we used to prepare our consolidated financial statements.

Principles of Consolidation:

The consolidated financial statements include Kraft Foods, as well as our wholly owned and majority owned subsidiaries. Our domestic operating subsidiaries report year-end results as of the last Saturday of the year, and our international operating subsidiaries generally report year-end results two weeks prior to the last Saturday of the year.

We account for investments in which we exercise significant influence (20% - 50% ownership interest) under the equity method of accounting. We use the cost method of accounting for investments in which we have an ownership interest of less than 20% and in which we do not exercise significant influence. Noncontrolling interest in subsidiaries consists of the equity interest of noncontrolling investors in consolidated subsidiaries of Kraft Foods. All intercompany transactions are eliminated.

Use of Estimates:

We prepare our financial statements in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect a number of amounts in our financial statements. Significant accounting policy elections, estimates and assumptions include, among others, pension and benefit plan assumptions, lives and valuation assumptions of goodwill and intangible assets, marketing programs and income taxes. We base our estimates on

historical experience and other assumptions that we believe are reasonable. If actual amounts differ from estimates, we include the revisions in our consolidated results of operations in the period in which we know the actual amounts. Historically, the aggregate differences, if any, between our estimates and actual amounts in any year have not had a significant impact on our consolidated financial statements.

Inventories:

Inventories are stated at the lower of cost or market. We record inventory allowances for overstocked and obsolete inventories due to ingredient and packaging changes. Effective January 1, 2009, we changed our method of valuing our U.S. inventories to the average cost method. In prior years, principally all U.S. inventories were valued using the last-in, first-out ("LIFO") method. We believe that the average cost method of accounting for U.S. inventories is preferable and will improve financial reporting by better matching revenues and expenses to current costs, by better aligning our external reporting with our competitors, and by aligning our external reporting with our tax basis of accounting. The financial statements for all periods presented were conformed to the change in accounting policy. With this change, we value all of our inventories using the average cost method.

Refer to Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements for further details of this change in accounting policy.

Long-Lived Assets:

We review long-lived assets, including amortizable intangible assets, for impairment when conditions exist that indicate the carrying amount of the assets may not be fully recoverable. We perform undiscounted operating cash flow analyses to determine if an impairment exists. When testing assets held for use for impairment, we group assets and liabilities at the lowest level for which cash flows are separately identifiable. If an impairment is determined to exist, the loss is calculated based on estimated 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.

Goodwill and Intangible Assets:

We test goodwill and non-amortizable intangible assets at least annually for impairment. We have recognized goodwill in our reporting units, which are generally one level below our operating segments. We use a two step process to test goodwill at the reporting unit level. The first step involves a comparison of the estimated fair value of each reporting unit with its carrying value. Fair value is estimated using discounted cash flows of the reporting unit based on planned growth rates, and estimates of discount rates and residual values. If the carrying value exceeds the fair value, the second step of the process is necessary. The second step measures the difference between the carrying value and implied fair value of goodwill. To test non-amortizable intangible assets for impairment, we compare the fair value of the intangible asset with its carrying value. Fair value of non-amortizable intangible assets is determined using our planned growth rates, and estimates of discount rates and royalty rates. If the carrying value exceeds fair value, the intangible asset is considered impaired and is reduced to fair value. Definite-lived intangible assets are amortized over their estimated useful lives.

We perform our annual impairment review of goodwill and non-amortizable intangible assets as of October 1 each year. The basis of our valuation methodology for estimating the fair value of our 20 reporting units is a 20-year projection of discounted cash flows that is based on our annual strategic planning process. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans, industry and economic conditions. For our reporting units within our Kraft Foods North America and Kraft Foods Europe geographic units, we used a market-participant, weighted-average cost of capital of 7.5% to discount the projected cash flows of those operations. For our reporting units within our Kraft Foods Developing Markets geographic unit, we used a risk-rated discount rate of 10.5%.

As a result of our 2009 annual review of goodwill and non-amortizable intangible assets, we recorded a \$12 million charge for the impairment of intangible assets in the Netherlands. During our 2009 impairment review, we also noted that the following three reporting units were the most sensitive to near-term changes in our discounted cash flow assumptions:

	<u>Percentage of Excess Fair Value over Carrying Value</u>	<u>October 1, 2009 Carrying Value of Goodwill (in millions)</u>
U.S. Salty Snacks	11%	\$ 1,186
N.A. Foodservice	22%	861
Europe Biscuits	11%	2,555

Each of our reporting units passed the first step of our 2009 annual impairment review with an estimated fair value greater than 110% of its carrying value. Looking past 2009, there are uncertainties within the three identified reporting units that could potentially require further analysis in the future in order for us to determine if a goodwill impairment exists within any of the individual reporting units. Significant uncertainties are:

- Continued economic uncertainty may lead customers to purchase more retailer brands or other economy brands, which could reduce sales volumes of our products or shift our product mix to our lower margin offerings. If we are not able to maintain or improve our brand image or value proposition, it could have a material effect on our market share and our profitability. As we primarily use a forecasted discounted cash flow model based on segment operating income, a material decrease in profitability would adversely affect our estimated fair value of any of these reporting units.
- Our U.S. Salty Snacks business has experienced volume declines over the past year. If this trend were to continue or worsen, it would adversely affect the estimated fair value of U.S. Salty Snacks reporting unit.
- Our N.A. Foodservice business is heavily dependent on the restaurant industry, which has been negatively impacted by the recent recession. Continued industry-wide declines in restaurant traffic would adversely affect the estimated fair value of the N.A. Foodservice reporting unit.
- Our Europe Biscuits business is primarily made up of the western European part of our 2007 *LU* Biscuit acquisition. Shortly after our acquisition, the economic environment in Europe deteriorated and ultimately lead to a recessionary period. If general economic conditions continue to worsen, it would adversely affect the estimated fair value of our Europe Biscuits reporting unit.

During the fourth quarter of 2008, we completed the annual review of goodwill and non-amortizable intangible assets and recorded a \$44 million charge for the impairment of intangible assets in the Netherlands, France and Puerto Rico. During our 2008 impairment review, we determined that our Europe Biscuits reporting unit was the most sensitive to near-term changes in our discounted cash flow assumptions, as it contains a significant portion of the goodwill recorded upon our 2007 acquisition of *LU* Biscuit.

Insurance and Self-Insurance:

We use a combination of insurance and self-insurance for a number of risks, including workers' compensation, general liability, automobile liability, product liability and our obligation for employee health care benefits. Liabilities associated with the risks are estimated by considering historical claims experience and other actuarial assumptions.

Revenue Recognition:

We recognize revenues when title and risk of loss pass to customers, which generally occurs upon shipment or delivery of goods. Revenues are recorded net of consumer incentives and trade promotions and include all shipping and handling charges billed to customers. Kraft Foods' shipping and handling costs are classified as part of cost of sales. A provision for product returns and allowances for bad debts are also recorded as reductions to revenues within the same period that the revenue is recognized.

Marketing Costs:

We promote our products with advertising, consumer incentives and trade promotions. These programs include, but are not limited to, discounts, coupons, rebates, in-store display incentives and volume-based incentives. We expense advertising costs either in the period the advertising first takes place or as incurred. Consumer incentive

and trade promotion activities are recorded as a reduction to revenues based on amounts estimated as being due to customers and consumers at the end of a period. We base these estimates principally on historical utilization and redemption rates. For interim reporting purposes, advertising and consumer incentive expenses are charged to operations as a percentage of volume, based on estimated volume and related expense for the full year. We do not defer costs on our year-end consolidated balance sheet and all marketing costs are recorded as an expense in the year incurred.

Environmental Costs:

We are subject to laws and regulations relating to the protection of the environment. We accrue for environmental remediation obligations on an undiscounted basis when amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change. Recoveries of environmental remediation costs from third parties are recorded as assets when recovery of those costs is deemed probable. At December 31, 2009, our subsidiaries were involved in 71 active actions in the U.S. under Superfund legislation (and other similar actions) related to current operations and certain former or divested operations for which we retain liability.

Based on information currently available, we believe that the ultimate resolution of existing environmental remediation actions and our compliance in general with environmental laws and regulations will not have a material effect on our financial results. However, we cannot quantify with certainty the potential impact of future compliance efforts and environmental remediation actions.

Employee Benefit Plans:

In September 2006, new guidance was issued surrounding employers' accounting for defined benefit pension and other postretirement plans. The new guidance required us to measure plan assets and benefit obligations as of the balance sheet date beginning in 2008. We previously measured our non-U.S. pension plans (other than certain Canadian and French pension plans) at September 30 of each year. On December 31, 2008, we recorded an after-tax decrease of \$8 million to retained earnings using the 15-month approach to proportionally allocate the transition adjustment required upon adoption of the measurement provision of the new guidance. The plan assets and benefit obligations of our pension plans and the benefit obligations of our postretirement plans are now all measured at year-end.

We provide a range of benefits to our employees and retired employees. These include pension benefits, postretirement health care benefits and postemployment benefits, consisting primarily of severance. We record amounts relating to these plans based on calculations specified by U.S. GAAP. These calculations require the use of various actuarial assumptions, such as discount rates, assumed rates of return on plan assets, compensation increases, turnover rates and health care cost trend rates. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. As permitted by U.S. GAAP, we generally amortize any effect of the modifications over future periods. We believe that the assumptions used in recording our plan obligations are reasonable based on our experience and advice from our actuaries. Refer to Note 11, *Benefit Plans*, to the consolidated financial statements for a discussion of the assumptions used.

We recorded the following amounts in earnings for these employee benefit plans during the years ended December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u> (in millions)	<u>2007</u>
U.S. pension plan cost	\$ 313	\$ 160	\$ 212
Non-U.S. pension plan cost	77	82	123
Postretirement health care cost	221	254	260
Postemployment benefit plan cost	143	571	140
Employee savings plan cost	94	93	83
Multiemployer pension plan contributions	29	27	26
Multiemployer medical plan contributions	35	33	33
Net expense for employee benefit plans	<u>\$ 912</u>	<u>\$ 1,220</u>	<u>\$ 877</u>

The 2009 net expense for employee benefit plans of \$912 million decreased by \$308 million over the 2008 amount. The cost decrease primarily related to lower postemployment benefit plan costs as we completed our five-year Restructuring Program in 2008, partially offset by higher pension plan costs, including a lower expected return on plan assets and higher amortization of the net loss from experience differences. The 2008 net expense for employee benefit plans of \$1,220 million increased by \$343 million over the 2007 amount. The cost increase primarily related to higher postemployment benefit plan costs related to the Restructuring Program, partially offset by lower pension plan costs, including lower amortization of the net loss from experience differences.

We plan to make contributions of approximately \$40 million to our U.S. pension plans and approximately \$200 million to our non-U.S. pension plans in 2010. Our estimated pension contributions do not include anticipated contributions for our newly acquired Cadbury business. We will update this figure in future filings to reflect these anticipated contributions. Our actual contributions may differ from our planned contributions due to many factors, including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates. For our U.S. qualified pension plans, we are not currently required to make any U.S. pension plan contributions under the Pension Protection Act of 2006 in 2010.

We expect our 2010 net expense for employee benefit plans to increase by approximately \$40 million. The increase is primarily due to higher forecasted non-U.S. pension plan costs due to plan assumption changes, partially offset by lower forecasted postemployment benefit plan costs. Our non-U.S. pension plan costs will be higher primarily due to a weighted-average decrease of 120 basis points in our discount rate assumption. As this disclosure was made as of December 31, 2009, it does not reflect the impacts of our recent acquisition and divestiture activity.

We will be freezing our U.S. pension plans for current salaried and non-union hourly employees effective December 31, 2019. Pension accruals for all salaried and non-union employees who are currently earning pension benefits will end on December 31, 2019, and continuing pay and service will be used to calculate the pension benefits through December 31, 2019. Our projected benefit obligation decreased \$168 million in 2009, and we incurred a \$5 million curtailment charge in 2009 related to the freeze. We expect the freeze to lower our annual U.S. pension plan costs by approximately \$40 million beginning in 2010. Additionally, for salaried and non-union hourly employees hired in the U.S. after January 1, 2009, we discontinued benefits under our U.S. pension plans, and we replaced them with an enhanced company contribution to our employee savings plan. We do not expect this to have a significant impact on our 2010 pension plan cost.

Our 2010 health care cost trend rate assumption remained unchanged at 7.00% for our U.S. postretirement plans and remained unchanged at 9.00% for our Canadian postretirement plans. We established these rates based upon our most recent experience as well as our expectation for health care trend rates going forward. We anticipate that our health care cost trend rate assumption will be 5.00% for U.S. plans by 2014 and 6.00% for Canadian plans by 2016. 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, 2009:

	<u>One-Percentage-Point</u>	
	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost	12.3%	(10.2%)
Effect on postretirement benefit obligation	9.8%	(8.3%)

Our 2010 discount rate assumption decreased to 5.70% from 6.10% for our U.S. postretirement plans and decreased to 5.25% from 7.60% for our Canadian postretirement plans. Our 2010 discount rate decreased to 5.93% from 6.10% for our U.S. pension plans. We model these discount rates using a portfolio of high quality, fixed-income debt instruments with durations that match the expected future cash flows of the benefit obligations. Our 2010 discount rate assumption for our non-U.S. pension plans decreased to 5.21% from 6.41%. We developed the discount rates for our non-U.S. plans from local bond indices that match local benefit obligations as closely as possible. Changes in our discount rates were primarily the result of changes in bond yields year-over-year.

Our 2010 expected rate of return on plan assets remained unchanged at 8.00% for our U.S. pension plans. We determine our expected rate of return on plan assets from the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class. We attempt to

maintain our target asset allocation by rebalancing between equity and debt asset classes as we make contributions and monthly benefit payments. We intend to rebalance our plan portfolios by mid-2010 by making contributions and monthly benefit payments.

While we do not anticipate further changes in the 2010 assumptions for our U.S. and non-U.S. pension and postretirement health care plans, as a sensitivity measure, a fifty-basis point change in our discount rate or a fifty-basis point change in the expected rate of return on plan assets would have the following effects, increase / (decrease) in cost, as of December 31, 2009:

	U.S. Plans		Non-U.S. Plans	
	Fifty-Basis-Point		Fifty-Basis-Point	
	Increase	Decrease	Increase	Decrease
	(in millions)			
Effect of change in discount rate on pension costs	\$ (59)	\$ 59	\$ (24)	\$ 26
Effect of change in expected rate of return on plan assets on pension costs	(30)	30	(18)	18
Effect of change in discount rate on postretirement health care costs	(9)	9	(1)	1

Financial Instruments:

As we operate globally, we use certain financial instruments to manage our foreign currency exchange rate, commodity price and interest rate risks. We monitor and manage these exposures as part of our overall risk management program. Our risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results. We maintain foreign currency, commodity price and interest rate risk management strategies that seek to reduce significant, unanticipated earnings fluctuations that may arise from volatility in foreign currency exchange rates, commodity prices and interest rates, principally through the use of derivative instruments.

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. We formally document the nature of and relationships between the hedging instruments and hedged items, as well as our 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 we deem it probable that the forecasted transaction will not occur, we recognize the gain or loss in earnings currently.

By using derivatives to hedge exposures to changes in exchange rates and commodity prices, we have exposure on these derivatives to credit and market risk. We are exposed to credit risk that the counterparty might fail to fulfill its performance obligations under the terms of the derivative contract. We minimize our credit risk by entering into transactions with high quality counterparties with investment grade credit ratings, limiting the amount of exposure we have with each counterparty and monitoring the financial condition of our counterparties. In October 2008, one of our counterparties, Lehman Brothers Commercial Corporation, filed for bankruptcy. Consequently, we wrote off an insignificant asset related to derivatives held with them. This did not have a significant impact on our foreign currency risk management program. We also maintain a policy of requiring that all significant, non-exchange traded derivative contracts with a duration greater than one year be governed by an International Swaps and Derivatives Association master agreement. Market risk is the risk that the value of the financial instrument might be adversely affected by a change in foreign currency exchange rates, commodity prices, or interest rates. We manage market risk by incorporating monitoring parameters within our risk management strategy that limit the types of derivative instruments and derivative strategies we use, and the degree of market risk that may be undertaken by the use of derivative instruments.

We record derivative financial instruments at fair value in our consolidated balance sheets as either current assets or current liabilities. Changes in the fair value of a derivative that is highly effective and designated as a cash flow hedge, to the extent that the hedge is effective, are recorded each period either in accumulated other comprehensive earnings / (losses) or in earnings. 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. Changes in the fair value of a derivative that is highly effective and designated as a fair value hedge, along with the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in current period earnings. Cash flows from hedging instruments are classified in the same manner as the affected hedged item in the consolidated statements of cash flows.

Income Taxes:

Prior to our spin-off from Altria, we were included in Altria's consolidated federal income tax return. We generally computed income taxes on a separate company basis; however, some of our foreign tax credits, capital losses and other credits could not be used on a separate company basis. To the extent that Altria used our foreign tax credits and other tax benefits in its consolidated federal income tax return, we recognized the benefit in the calculation of our provision for income taxes. This benefit was approximately \$270 million in 2007. We made payments to, or were reimbursed by, Altria for the tax effects resulting from being included in Altria's tax return. As of March 31, 2007, we were no longer a member of the Altria consolidated tax return group. We file our own federal consolidated income tax returns.

In July 2006, new guidance was issued which addressed accounting for the uncertainty in income taxes. We adopted the guidance effective January 1, 2007. The guidance clarified when tax benefits should be recorded in the financial statements and provided measurement criteria for valuing such benefits. In order for us to recognize benefits, our tax position must be more likely than not to be sustained upon audit. The amount we recognize is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Before the implementation of this guidance, we established additional provisions for certain positions that were likely to be challenged even though we believe that those existing tax positions were fully supportable. The adoption of this guidance resulted in an increase to equity as of January 1, 2007 of \$213 million.

We recognize deferred tax assets for deductible temporary differences, operating loss carryforwards and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

Commodity Trends

We are a major purchaser of dairy, coffee, cocoa, wheat, corn products, soybean and vegetable oils, nuts, meat products, and sugar and other sweeteners. We also use significant quantities of plastic, glass and cardboard to package our products, and natural gas for our factories and warehouses. We continuously monitor worldwide supply and cost trends of these commodities so we can act quickly to obtain ingredients and packaging needed for production.

We purchase our 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 market supply and demand, as well as by government programs. Dairy commodity costs on average were lower in 2009 than in 2008. Significant cost items in our biscuit and grocery products are grains (wheat, corn and soybean oil). Grain costs have experienced significant volatility as a result of burgeoning global demand for food, livestock feed and biofuels such as ethanol and biodiesel. Grain costs on average were relatively flat from 2008 to 2009. 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, changes in the value of the U.S. dollar in relation to certain other currencies and consumer demand for coffee products. Green coffee bean costs on average were lower in 2009 than in 2008. 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 and the U.S. dollar relative to certain other currencies. Cocoa bean and cocoa butter costs on average were higher in 2009 than in 2008.

During 2009, our aggregate commodity costs decreased primarily as a result of lower dairy costs. For 2009, our commodity costs were approximately \$150 million lower than 2008, following an increase of approximately \$2.0 billion in 2008 compared to 2007. Overall, we expect commodity costs to continue to be volatile in 2010.

Liquidity

We believe that our cash from operations, our existing \$4.5 billion revolving credit facility (which supports our commercial paper program) and our authorized long-term financing will provide sufficient liquidity to meet our working capital needs, planned capital expenditures, future contractual obligations and payment of our anticipated quarterly dividends. We continue to utilize our commercial paper program and primarily uncommitted international credit lines for daily funding requirements. We also use short-term intercompany loans from foreign subsidiaries to improve financial flexibility. Overall, we do not expect any negative effects to our funding sources that would have a material effect on our liquidity.

Net Cash Provided by Operating Activities:

Operating activities provided net cash of \$5.1 billion in 2009, \$4.1 billion in 2008 and \$3.6 billion in 2007. The increase in operating cash flows in 2009 primarily related to working capital improvements over the prior year (primarily due to improved inventory positions, partially offset by higher interest payments, principally due to the first annual payment on our euro notes) and higher earnings. The increase in operating cash flows was partially offset by higher pension contributions, driven by total voluntary contributions of \$400 million that we made to our U.S. pension plans in May and December 2009.

Operating cash flows increased in 2008 from 2007 primarily due to increased earnings and working capital improvements (mainly from lower income tax payments and lower inventory levels), partially offset by increased interest paid. The increase in operating cash flows was partially offset by a \$305 million tax transfer from Altria in 2007 for the federal tax contingencies held by them, less the impact of federal reserves reversed due to the adoption of new guidance which addressed accounting for the uncertainty in income taxes. The transfer from Altria was reflected as a component of the change in other current assets within the net cash provided by operating activities section of the consolidated statement of cash flows.

We anticipate making U.S. pension contributions of approximately \$40 million in 2010 and non-U.S. pension contributions of approximately \$200 million in 2010. We expect to fund these contributions from operations. Our estimated pension contributions do not include anticipated contributions for our newly acquired Cadbury business. We will update this figure in future filings to reflect these anticipated contributions.

Net Cash Used in Investing Activities:

One element of our growth strategy is to strengthen our brand portfolios and / or expand our geographic reach through disciplined programs of selective acquisitions and divestitures. We are regularly reviewing potential acquisition candidates and from time to time sell businesses to accelerate the shift in our portfolio toward businesses—whether global, regional or local - that offer us a sustainable competitive advantage. The impact of future acquisitions or divestitures could have a material impact on our cash flows.

Net cash used in investing activities was \$1.2 billion in 2009, \$1.3 billion in 2008 and \$8.4 billion in 2007. The decrease in cash used in investing activities in 2009 primarily related to a \$99 million payment made to Groupe Danone S.A. in 2008 to refund excess cash received in the acquisition of LU Biscuit and lower capital expenditures, partially offset by lower proceeds from divestitures. The decrease in cash used in investing activities in 2008 primarily related to lower payments for acquisitions, partially offset by lower proceeds from divestitures and higher capital expenditures.

During 2009, we divested our *Balance* bar operations in the U.S., a juice operation in Brazil and a plant in Spain and received \$41 million in net proceeds. During 2008, we received \$153 million in net proceeds on divestitures, primarily related to a Nordic and Baltic snacks operation and four operations in Spain, and we disbursed \$56 million for transaction fees related to the split-off of the *Post* cereals business. Additionally, we paid Groupe Danone S.A. the aforementioned refund in 2008. During 2007, we received net proceeds of \$216 million from the divestitures of our flavored water and juice brand assets and related trademarks, our sugar confectionery assets in Romania and related trademarks and our hot cereal assets and trademarks. Additionally, we acquired LU Biscuit for €5.1 billion (approximately \$7.6 billion) in cash in 2007.

Capital expenditures, which were funded by operating activities, were \$1.3 billion in 2009, \$1.4 billion in 2008 and \$1.2 billion in 2007. The 2009 capital expenditures were primarily used to modernize manufacturing facilities and

support new product and productivity initiatives. We expect 2010 capital expenditures to be in line with 2009 expenditures, including capital expenditures required for systems' investments. We expect to fund these expenditures from operations. As this disclosure was made as of December 31, 2009, it does not reflect the impacts of our recent acquisition and divestiture activity.

Net Cash (Used in) / Provided by Financing Activities:

Net cash used in financing activities was \$3.1 billion in 2009 and \$2.1 billion during 2008, compared with \$5.1 billion provided during 2007. The net cash used in financing activities in 2009 primarily related to \$1.7 billion in dividend payments, \$950 million in repayments of long-term debt securities and \$344 million in net commercial paper repayments. Additionally, other cash used in financing activities in 2009 included \$69 million in costs related to our bridge facility agreement dated November 9, 2009 (the "Cadbury Bridge Facility"). The net cash used in financing activities in 2008 primarily related to \$5.9 billion in payments made on the bridge facility used to fund our LU Biscuit acquisition, \$1.7 billion in dividend payments, \$777 million in Common Stock share repurchases and \$795 million in repayments of long-term debt securities, primarily related to debt that matured on October 1, 2008, partially offset by \$6.9 billion in proceeds from our long-term debt offerings. The net cash provided by financing activities in 2007 was primarily due to \$6.4 billion in proceeds from long-term debt offerings and net outstanding borrowings of \$5.5 billion under the bridge facility used to fund our LU Biscuit acquisition, partially offset by \$3.7 billion in Common Stock share repurchases, \$1.6 billion in dividend payments and \$1.4 billion in repayments of long-term debt securities that matured.

In August 2010, \$500 million of our long-term debt matures. We expect to fund the repayment with cash from operations or short-term borrowings. As this disclosure was made as of December 31, 2009, it does not reflect the impacts of our recent acquisition and divestiture activity.

Borrowing Arrangements:

On November 30, 2009, we entered into a revolving credit agreement for a \$4.5 billion three-year senior unsecured revolving credit facility. The agreement replaced our former revolving credit agreement, which was terminated upon the signing of the new agreement. We intend to use the revolving credit facility for general corporate purposes, including for working capital purposes, and to support our commercial paper issuances. No amounts have been drawn on the facility.

The revolving credit agreement requires us to maintain a minimum total shareholders' equity, excluding accumulated other comprehensive earnings / (losses), of at least \$23.0 billion. Upon the completion of the Cadbury acquisition this covenant will increase by 75% of any increase in our total shareholders' equity as a direct result of a) our issuance of certain types of equity securities to finance the acquisition; or b) our refinancing certain indebtedness. At December 31, 2009, our total shareholders' equity, excluding accumulated other comprehensive earnings / (losses), was \$29.8 billion. We expect to continue to meet this covenant. The revolving credit agreement also contains customary representations, covenants and events of default. However, the revolving credit facility has no other financial covenants, credit rating triggers or provisions that could require us to post collateral as security.

In addition to the above, some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to \$1.5 billion at December 31, 2009. Borrowings on these lines amounted to \$191 million at December 31, 2009 and \$291 million at December 31, 2008.

The Cadbury Bridge Facility is a £5.5 billion (approximately \$8.9 billion) 364-day senior unsecured facility. On January 18, 2010, we amended the agreement to increase the Cadbury Bridge Facility to an aggregate of £7.1 billion. On February 11, 2010, after the issuance of \$9.5 billion of senior unsecured notes, we amended the agreement again to decrease the Cadbury Bridge Facility to an aggregate of £1.3 billion. We expect to use borrowings under the Cadbury Bridge Facility and proceeds from other financing sources to finance the Cadbury acquisition and to refinance certain indebtedness of Cadbury and its subsidiaries. With certain restrictions, borrowings under the Cadbury Bridge Facility are also available for our general corporate purposes.

The Cadbury Bridge Facility agreement includes the same minimum shareholders' equity requirement as in our \$4.5 billion revolving credit agreement. In addition, in the event that our long-term senior unsecured indebtedness is rated below investment grade by either Moody's or Standard & Poor's, the Cadbury Bridge Facility agreement requires us to maintain a net debt to adjusted EBITDA ratio of not more than 4.25 to 1.00. At December 31, 2009, we continued

to maintain our investment grade debt rating, and our net debt to adjusted EBITDA ratio was 2.64. The Cadbury Bridge Facility agreement also contains customary representations, covenants and events of default and requires the prepayment of advances and / or the permanent reduction of commitments under the facility with the net cash proceeds received from certain disposals, debt issuances and equity capital markets transactions. No amounts were drawn on the facility at December 31, 2009.

Subject to market conditions, we expect to refinance or reduce advances under the Cadbury Bridge Facility from proceeds of alternative financing sources.

Debt:
Our total debt was \$19.0 billion at December 31, 2009 and \$20.3 billion at December 31, 2008. Our debt-to-capitalization ratio was 0.42 at December 31, 2009 and 0.48 at December 31, 2008. At December 31, 2009, the weighted-average term of our outstanding long-term debt was 8.4 years.

On February 8, 2010, we issued \$9.5 billion of senior unsecured notes at a weighted-average effective rate of 5.364% and are using the net proceeds (\$9,379 million) to finance the Cadbury acquisition and for general corporate purposes. After the issuance of the \$9.5 billion of senior unsecured notes, the weighted-average term of our outstanding long-term debt was 10.5 years.

On September 3, 2009, we redeemed our November 2011, 7% \$200 million debenture at par value. Upon redemption, we recorded a loss of \$14 million within interest and other expense, net which represented the write-off of the remaining discount. On November 12, 2009, we repaid \$750 million in notes, and on October 1, 2008, we repaid \$700 million in notes. These repayments were primarily financed from commercial paper issuances.

On December 19, 2008, we issued \$500 million of senior unsecured notes; on May 22, 2008, we issued \$2.0 billion of senior unsecured notes; and on March 20, 2008, we issued €2.85 billion (approximately \$4.5 billion) of senior unsecured notes. We used the net proceeds from these issuances (\$498 million in December, \$1,967 million in May and approximately \$4,470 million in March) for general corporate purposes, including the repayment of borrowings under the bridge facility used to fund our *LU Biscuit* acquisition and other short-term borrowings.

The notes from all above issuances include covenants that restrict our ability to incur debt secured by liens above a certain threshold. We are also required to offer to purchase these notes at a price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to the date of repurchase, if we experience both of the following:

- (i) a "change of control" triggering event, and
- (ii) a downgrade of these notes below an investment grade rating by each of Moody's, Standard & Poor's and Fitch within a specified period.

We expect to continue to comply with our long-term debt covenants. Refer to Note 7, *Debt and Borrowing Arrangements*, for further details of these debt offerings.

From time to time we refinance long-term and short-term debt. The nature and amount of our long-term and short-term debt and the proportionate amount of each varies as a result of future business requirements, market conditions and other factors. We have an automatic shelf registration on Form S-3 on file with the SEC. As a well-known seasoned issuer, we are able to register new debt securities in amounts authorized by our Board of Directors through December 2010. On October 4, 2007 our Board of Directors authorized \$5.0 billion in general long-term financing, which was in addition to the €5.3 billion authorized for the *LU Biscuit* acquisition and the £7.1 billion authorized for the Cadbury acquisition. At December 31, 2009, we had approximately \$3.0 billion remaining in general long-term financing authority and £7.1 billion (approximately \$11.5 billion) remaining in Cadbury financing authority from our Board of Directors.

Debt Ratings:

At February 16, 2010, our debt ratings by major credit rating agencies were:

	<u>Short term</u>	<u>Long term</u>
Moody's	P-2	Baa2
Standard & Poor's	A-2	BBB-
Fitch	F3	BBB-

Our debt ratings were downgraded due to the increased level of our indebtedness incurred in connection with our acquisition of Cadbury. On February 2, 2010, Moody's affirmed our short-term debt rating of P-2 and our long-term debt rating Baa2, and revised the outlook from stable to negative. On February 2, 2010, Standard & Poor's affirmed our short-term debt rating of A-2 and downgraded our long-term debt rating from BBB+ to BBB-, with a positive outlook. On January 20, 2010, Fitch downgraded our short-term debt rating from F2 to F3 and downgraded our long-term debt rating from BBB to BBB-, with a stable outlook.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

We have no off-balance sheet arrangements other than the guarantees and contractual obligations that are discussed below.

Guarantees:

As discussed in Note 13, *Commitments and Contingencies*, we have third-party guarantees primarily covering the long-term obligations of our vendors. As part of those transactions, we guarantee that third parties will make contractual payments or achieve performance measures. At December 31, 2009, the carrying amount of our third-party guarantees on our consolidated balance sheet and the maximum potential payments under these guarantees was \$29 million. Substantially all of these guarantees expire at various times through 2018.

In addition, at December 31, 2009, we were contingently liable for \$274 million of guarantees related to our own performance. These include letters of credit related to dairy commodity purchases and guarantees related to the payment of custom duties and taxes, and other letters of credit.

Guarantees do not have, and we do not expect them to have, a material effect on our liquidity.

Aggregate Contractual Obligations:

The following table summarizes our contractual obligations at December 31, 2009, and does not reflect the impacts of our recent acquisition and divestiture activity.

	<u>Payments Due</u>				
	<u>Total</u>	<u>2010</u>	<u>2011-12</u>	<u>2013-14</u>	<u>2015 and</u>
			<u>(in millions)</u>		<u>Thereafter</u>
Long-term debt ⁽¹⁾	\$ 18,536	\$ 501	\$ 6,366	\$ 2,051	\$ 9,618
Interest expense ⁽²⁾	10,598	1,132	2,073	1,364	6,029
Capital leases ⁽³⁾	84	16	26	13	29
Operating leases ⁽⁴⁾	1,125	306	428	179	212
Purchase obligations: ⁽⁵⁾					
Inventory and production costs	5,819	4,465	1,079	257	18
Other	1,281	863	278	137	3
	<u>7,100</u>	<u>5,328</u>	<u>1,357</u>	<u>394</u>	<u>21</u>
Other long term liabilities ⁽⁶⁾	2,296	280	474	454	1,088
	<u>\$ 39,739</u>	<u>\$ 7,563</u>	<u>\$ 10,724</u>	<u>\$ 4,455</u>	<u>\$ 16,997</u>

(1) Amounts represent the expected cash payments of our long-term debt and do not include unamortized bond premiums or discounts.

(2) Amounts represent the expected cash payments of our interest expense on our long-term debt. Interest calculated on our variable-rate debt was forecasted using a LIBOR rate forward curve analysis as of December 31, 2009. Interest calculated on our euro notes was forecasted using the euro to U.S. dollar exchange rate as of December 31, 2009. An insignificant amount of interest expense was excluded from the table for a portion of our foreign debt due to the complexities involved in forecasting expected interest payments.

- (3) Amounts represent the expected cash payments of our capital leases, including the expected cash payments of interest expense of approximately \$18 million on our capital leases.
- (4) Operating leases represent the minimum rental commitments under non-cancelable operating leases.
- (5) 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 specifies 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.
- (6) Other long-term liabilities primarily consist of estimated future benefit payments for our postretirement health care plans through December 31, 2019 of approximately \$2,180 million. We are unable to reliably estimate the timing of the payments beyond 2019; as such, they are excluded from the above table. In addition, the following long-term liabilities included on the consolidated balance sheet are excluded from the table above: accrued pension costs, income taxes, insurance accruals and other accruals. We are unable to reliably estimate the timing of the payments (or contributions beyond 2010, in the case of accrued pension costs) for these items. We currently expect to make approximately \$240 million in contributions to our pension plans in 2010. We also expect that our net pension cost will increase by approximately \$50 million to approximately \$440 million in 2010. As of December 31, 2009, our total liability for income taxes, including uncertain tax positions and associated accrued interest and penalties, was \$1.2 billion. We expect to pay approximately \$239 million in the next 12 months. During 2009, we reached an agreement with the IRS on specific matters related to years 2000 through 2003. Our returns for those years are still under examination, and the IRS recently began its examination of years 2004 through 2006. We are not able to reasonably estimate the timing of future cash flows beyond 12 months due to uncertainties in the timing of these and other tax audit outcomes.

Equity and Dividends

Stock Repurchases:

Our Board of Directors authorized the following Common Stock repurchase programs. Our \$5.0 billion share repurchase authority expired on March 30, 2009. We did not repurchase any shares in 2009.

Share Repurchase Program Authorized by the Board of Directors	\$5.0 billion	\$2.0 billion
Authorized / completed period for repurchase	April 2007 - March 2009	March 2006 - March 2007
Aggregate cost of shares repurchased in 2008 (millions of shares)	\$777 million (25.3 shares)	
Aggregate cost of shares repurchased in 2007 (millions of shares)	\$3.5 billion (105.6 shares)	\$140 million (4.5 shares)
Aggregate cost of shares repurchased life-to-date under program (millions of shares)	\$4.3 billion (130.9 shares)	\$1.1 billion (34.7 shares)

In total, we repurchased 25.3 million shares for \$777 million in 2008 and 110.1 million shares for \$3,640 million in 2007 under these programs. We made these repurchases of our Common Stock in open market transactions.

In March 2007, we repurchased 1.4 million additional shares of our Common Stock from Altria at a cost of \$46.5 million. We paid \$32.085 per share, which was the average of the high and the low price of Kraft Foods Common Stock as reported on the NYSE on March 1, 2007. This repurchase was in accordance with our spin-off agreement with Altria.

Stock Plans:

At our 2009 annual meeting, our shareholders approved the Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan (the "2005 Plan"). The 2005 Plan includes, among other provisions, a limit on the number of shares that may be granted, vesting restrictions and a prohibition on stock option repricing. Under the amended plan, we are authorized to issue a maximum of 168.0 million shares of our Common Stock. As of the effective date of the amendment, there were 92.1 million shares available to be granted under the 2005 Plan, of which no more than 27.5 million shares may be awarded as restricted or deferred stock.

In 2008, we changed our annual and long-term incentive compensation programs to further align them with shareholder returns. Under the annual equity program, we now grant equity in the form of both restricted or deferred stock and stock options. The restricted or deferred stock continues to vest 100% after three years, and the stock

options vest in three annual installments beginning on the first anniversary of the grant date. Additionally, we changed our long-term incentive plan from a cash-based program to a share-based program. These shares vest based on varying performance, market and service conditions. The unvested long-term incentive plan shares have no voting rights and do not pay dividends.

In January 2009, we granted 1.5 million shares of stock in connection with our long-term incentive plan. The market value per share was \$27.00 on the date of grant. In February 2009, as part of our annual equity program, we issued 4.1 million shares of restricted and deferred stock to eligible employees. The market value per restricted or deferred share was \$23.64 on the date of grant. Also, as part of our annual equity program, we granted 16.3 million stock options to eligible employees at an exercise price of \$23.64.

We also issued 0.2 million off-cycle shares of restricted and deferred stock during 2009. The weighted-average market value per restricted or deferred share was \$25.55 on the date of grant. In aggregate, we issued 5.8 million restricted and deferred shares during 2009.

At December 31, 2009, the number of shares to be issued upon exercise of outstanding stock options, vesting of non-U.S. deferred shares and vesting of long-term incentive plan shares was 52.8 million or 3.6% of total shares outstanding.

In January 2008, we granted 1.4 million shares of stock in connection with our long-term incentive plan. The market value per share was \$32.26 on the date of grant. In February 2008, as part of our annual equity program, we issued 3.4 million shares of restricted and deferred stock to eligible employees. The market value per restricted or deferred share was \$29.49 on the date of grant. Also, as part of our annual equity program, we granted 13.5 million stock options to eligible employees at an exercise price of \$29.49.

In addition, we issued 0.2 million off-cycle shares of restricted and deferred stock during 2008. The weighted-average market value per restricted or deferred share was \$30.38 on the date of grant. In aggregate, we issued 5.0 million restricted and deferred shares during 2008. We also granted 0.1 million off-cycle stock options during 2008 at an exercise price of \$30.78. In aggregate, we granted 13.6 million stock options during 2008.

Our Board of Directors approved a stock option grant to our Chief Executive Officer on May 3, 2007, to recognize her election as our Chairman. She received 300,000 stock options, which vest under varying market and service conditions and expire ten years after the grant date.

In January 2007, we issued 5.2 million shares of restricted and deferred stock to eligible employees as part of our annual equity program. The market value per restricted or deferred share was \$34.655 on the date of grant. Additionally, we issued 1.0 million off-cycle shares of restricted and deferred stock during 2007. The weighted-average market value per restricted or deferred share was \$34.085 on the date of grant. The total number of restricted and deferred shares issued in 2007 was 9.2 million, including those issued as a result of our spin-off from Altria (discussed below).

Upon our spin-off, Altria stock awards were modified through the issuance of Kraft Foods stock awards, and accordingly, the Altria stock awards were split into two instruments. Holders of Altria stock options received: 1) a new Kraft Foods option to acquire shares of Kraft Foods Common Stock; and 2) an adjusted Altria stock option for the same number of shares of Altria common stock previously held, but with a proportionally reduced exercise price. For each employee stock option outstanding, the aggregate intrinsic value immediately after our spin-off from Altria was not greater than the aggregate intrinsic value immediately prior to it. Holders of Altria restricted stock or stock rights awarded before January 31, 2007, retained their existing awards and received restricted stock or stock rights in Kraft Foods Common Stock. Recipients of Altria restricted stock or stock rights awarded on or after January 31, 2007, did not receive Kraft Foods restricted stock or stock rights because Altria had announced the spin-off at that time. We reimbursed Altria \$179 million for net settlement of the employee stock awards. We determined the fair value of the stock options using the Black-Scholes option valuation model, and adjusted the fair value of the restricted stock and stock rights by the value of projected forfeitures.

Based upon the number of Altria stock awards outstanding at the time of our spin-off, we granted stock options for 24.2 million shares of Common Stock at a weighted-average price of \$15.75. The options expire between 2007 and

2012. In addition, we issued 3.0 million shares of restricted stock and stock rights. The market value per restricted share or right was \$31.66 on the date of grant. Restrictions on the majority of these restricted shares and stock rights lapsed in either the first quarter of 2008 or 2009.

Dividends:

We paid dividends of \$1,712 million in 2009, \$1,663 million in 2008 and \$1,638 million in 2007. The increases of 2.9% in 2009 and 1.5% in 2008 reflect higher dividend rates, partially offset by fewer shares outstanding resulting from the split-off of the *Post* cereals business and share repurchases. The present annualized dividend rate is \$1.16 per common share. The declaration of dividends is subject to the discretion of our Board of Directors and depends on various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors that our Board of Directors deems relevant to its analysis and decision making.

2010 Outlook

We expect the strong operating and financial momentum of our base business to carry forward into coming years. In the near term, we continue to target organic net revenue growth of 4 percent or more and the high end of our 7 to 9 percent long-term EPS growth objective on our base business.

We expect to deliver this performance while:

- investing incrementally in product quality, marketing and innovation;
- raising productivity as a percentage of cost of goods sold to greater than 4 percent by 2011;
- leveraging overhead costs by reducing overhead as a percentage of net revenue to approximately 12.5 percent by 2011; and
- restoring operating income margins to industry benchmarks in the mid-teens by 2011.

In addition, our consolidated results will include Cadbury from February 2, 2010, onwards. The combination of Kraft Foods and Cadbury is expected to provide the potential for meaningful revenue synergies over time from investments in distribution, marketing and product development. As a result, the combined company is targeting long-term organic net revenue growth of 5 percent or more.

Opportunities for significant synergies from the combination have also been identified. On a combined basis, we continue to expect that pre-tax cost savings of at least \$675 million annually can be realized by the end of 2012. Total one-time implementation cash costs of approximately \$1.3 billion are expected to be incurred through the end of 2012.

On a combined basis, we are targeting accretion to earnings per share in 2011 of approximately \$0.05 on a cash basis, which excludes one-time expenses to achieve cost savings, expenses related to the transaction and the impact of incremental non-cash items such as the amortization of intangibles related to the acquisition. Over the long-term, the combined company is targeting EPS growth of 9 to 11 percent.

Our results will also be affected by the sale of the assets of our Frozen Pizza business, which is expected to close in the first quarter of 2010. We also expect earnings to be reduced by approximately \$0.05 per diluted share on an annual basis as a result of the Frozen Pizza business transaction. This assumes the proceeds will be used for a combination of debt reduction and share repurchases.

New Accounting Standards

See Note 1, *Summary of Significant Accounting Policies*, to the consolidated financial statements for a discussion of new accounting standards.

Contingencies

See Note 13, *Commitments and Contingencies*, to the consolidated financial statements and Part I Item 3. Legal Proceedings for a discussion of contingencies.

Non-GAAP Financial Measures

We use the non-U.S. GAAP financial measure "organic net revenues" and corresponding growth ratios. The difference between "organic net revenues" and "net revenues," which is the most comparable U.S. GAAP financial measure, is that organic net revenues excludes the impact of acquisitions, divestitures and currency. Organic net revenues is used by our management to budget, make operating and strategic decisions and evaluate our performance. We have disclosed this measure so that you have the same financial data that management uses with the intention of assisting you in making comparisons to our historical operating results and analyzing our underlying performance. Our management believes that organic net revenues better reflect the underlying growth from the ongoing activities of our business and provide improved comparability of results because they exclude the impact of fluctuations in foreign currency exchange rates, which are not under our control, and also exclude the one-time impacts of acquisitions and divestitures on net revenues. The limitation of this measure is that it excludes items that have an impact on net revenues. The best way that this limitation can be addressed is by using organic net revenues in combination with our U.S. GAAP reported net revenues. Our management believes that the presentation of this non-U.S. GAAP financial measure, when considered together with our U.S. GAAP financial measures and the reconciliations to the corresponding U.S. GAAP financial measures, provides you with a more complete understanding of the factors and trends affecting Kraft Foods than could be obtained absent these disclosures. Because organic net revenues calculations may vary among other companies, the organic net revenues figures presented in the Consolidated Results of Operations section may not be comparable with similarly titled measures of other companies. Organic net revenues are not meant to be considered in isolation or as a substitute for U.S. GAAP financial measures. You should carefully evaluate the following table reconciling U.S. GAAP reported net revenues to organic net revenues.

	2009	2008	\$ Change	% Change
	(in millions)			
Organic net revenues	\$ 42,210	\$ 41,577	\$ 633	1.5%
Impact of divestitures	73	355	(282)	(0.7)pp
Unfavorable foreign currency	(1,897)	-	(1,897)	(4.5)pp
Reported net revenues	\$ 40,386	\$ 41,932	\$ (1,546)	(3.7%)

	2008	2007	\$Change	% Change
	(in millions)			
Organic net revenues	\$ 37,818	\$ 35,424	\$ 2,394	6.8%
Impact of divestitures	230	434	(204)	(0.8)pp
Favorable foreign currency	711	-	711	2.0pp
2007 LU Biscuit acquisition	3,173	-	3,173	8.9pp
Reported net revenues	\$ 41,932	\$ 35,858	\$ 6,074	16.9%

In addition, we use the non-U.S. GAAP financial measure "free cash flow." The difference between "free cash flow" and "net cash provided by operating activities," which is the most comparable U.S. GAAP financial measure, is that free cash flow reflects the impact of capital expenditures. The limitation of this measure is that it includes items that do not have an impact on our cash flow provided by operating activities. The best way that this limitation can be addressed is by using free cash flow in combination with our U.S. GAAP reported net cash provided by operating activities.

Free cash flow is an internal, supplemental measure of our performance. Our management uses free cash flow as the primary cash flow metric in the budgeting and forecasting processes, as it represents the controllable cash flows from operations. We believe free cash flow shows the financial health of, and how efficiently we are running, the company. We further believe that this non-U.S. GAAP measure provides information useful to both management and investors in gaining an overall understanding of our current financial performance, and that it provides investors with financial information that most closely aligns to our internal measurement processes.

This non-U.S. GAAP measure should not be considered in isolation or as an alternative to cash flows generated by operating, investing or financing activities as a measure of our liquidity. Because free cash flow is not a measurement determined in accordance with U.S. GAAP, and is thus susceptible to varying calculations, free cash flow may not be comparable to other similarly titled measures of other companies.

The table below reconciles reported net cash provided by operating activities to free cash flow for the periods stated.

	<u>2009</u>	<u>2008</u> (in millions)	<u>2007</u>
Net Cash Provided by Operating Activities	\$ 5,084	\$ 4,141	\$ 3,571
Capital Expenditures	(1,330)	(1,367)	(1,241)
Free cash flow	\$ 3,754	\$ 2,774	\$ 2,330

Forward-Looking Statements

This report contains forward-looking statements including how our four priorities will shape our future; our planned sale of our Frozen Pizza business, including regulatory clearances, number of employees who will transfer and expected close; what our strategy is centered on; our investments align with growing consumer interest in convenience products and premium brands; our focus on snacks and confectionary products fits well within our strategy of growth in instant consumption channels; our long-term strategy; our intent to acquire the remaining Cadbury ordinary shares; our accounting for the sale of our Frozen Pizza business as a discontinued operation in the first quarter of 2010; our continuing expectation that the exchange with our shareholders related to the split-off of the *Post* cereals business was tax-free; expectations about *LU* biscuits; with regard to our Restructuring Program, our use of cash to pay charges and cumulative annualized savings; in connection with our new operating structure, that we are putting our resources closer to where we make decisions that affect our consumers and customers and our intent to simplify, streamline and increase accountability, with the ultimate goal of generating reliable growth for Kraft Foods; why we disclose implementation charges; our reorganization of our European operations and how we changed the way we work; why we include segment operating income; our expectation regarding completion of our reorganization of Kraft Foods Europe; expected additional charges to complete the integration of the Europe Biscuits business and why we disclose implementation and other non-recurring charges; our expectations regarding how the Venezuelan devaluation will affect our 2010 operating results; our belief that the average cost method of accounting is preferable and will improve our financial reporting; our uncertainty that the three reporting units could potentially require further analysis in the future to determine if a goodwill impairment exists, and the significant certainties, including continued economic uncertainty, volume declines, the negative effect of the recession on restaurant industry and the deteriorating economic environment in Europe that ultimately lead to a recessionary period; our belief that the ultimate resolution of existing environmental remediation actions and our compliance with environmental laws and regulations will not have a material effect on our financial results and our uncertainty related to the potential impact of future compliance efforts and environmental remediation efforts; our belief regarding the assumptions used in recording our plan obligations; with regard to our pension plans, the amount we expect to make in contributions in 2010, the amount we expect our net pension cost to increase, our expectation regarding the amount the pension freeze will lower our annual U.S. pension plan costs and our expectation that the enhanced company contribution to our employee savings plan will not have a significant impact on our 2010 pension plan cost; our expectation for health care trend rates; our anticipated health care cost trend rate assumption; our discount rate model and expected future cash flows of benefit obligations; that the final outcome of our legal proceedings will not materially affect our financial results; our 2010 expected rate of return on plan assets; our intent to rebalance our plan portfolios by mid-2010; that we do not anticipate further changes in the 2010 assumptions for our pension and postretirement health care plans; our risk management program effects; our exposure relating to derivatives to credit and market risk; our expectation that 2010 commodity costs will be volatile; our belief regarding our liquidity; that we do expect any negative effects to our funding sources that would have a material effect on our liquidity; our expectation to fund pension contributions from operations; the element of our growth strategy to strengthen our brand portfolios and / or expand our geographic reach through disciplined programs of selective acquisitions and divestitures; the impact of future acquisitions or divestitures could have a material impact on our cash flows; our expectations regarding 2010 capital expenditures; our expectation to fund the repayment of our long-term debt with cash from operations or short-term borrowings; our intended use of the revolving credit agreement; that we expect to continue to meet the shareholders' equity covenant; our expectation that we will continue to comply with our long-term debt covenants; that we expect to use borrowings under the Cadbury Bridge Facility and proceeds from other financing sources to finance the Cadbury acquisition and to refinance Cadbury debt; that we expect to refinance or reduce advances under the Cadbury Bridge Facility from proceeds of alternative financing sources; that guarantees do not have, and we do not expect them to have a material effect on our liquidity; our expectations regarding our aggregate contractual obligations; and our 2010 Outlook.

These forward-looking statements involve risks and uncertainties, and the cautionary statements contained in the "Risk Factors" found in this Annual Report on Form 10-K identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. Such factors, include, but are not limited to, continued volatility in commodity costs, pricing actions, increased competition, our ability to differentiate our products from private label products, increased costs of sales, our indebtedness and our ability to pay our indebtedness, unexpected safety or manufacturing issues, Food and Drug Administration or other regulatory actions or delays, unanticipated expenses such as litigation or legal settlement expenses, a shift in our product mix to lower margin offerings, risks from operating globally, our failure to successfully integrate the Cadbury business and tax law changes. We disclaim and do not undertake any obligation to update or revise any forward-looking statement in this Form 10-K.

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

As we operate globally, we use certain financial instruments to manage our foreign currency exchange rate, commodity price and interest rate risks. We monitor and manage these exposures as part of our overall risk management program. Our risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results. We maintain foreign currency, commodity price and interest rate risk management policies that principally use derivative instruments to reduce significant, unanticipated earnings fluctuations that may arise from volatility in foreign currency exchange rates, commodity prices and interest rates. We also sell commodity futures to unprice future purchase commitments, and we occasionally use related futures to cross-hedge a commodity exposure. We are not a party to leveraged derivatives and, by policy, do not use financial instruments for speculative purposes. Refer to Note 1, *Summary of Significant Accounting Policies*, and Note 12, *Financial Instruments*, to the consolidated financial statements for further details of our foreign currency, commodity price and interest rate risk management policies and the types of derivative instruments we use to hedge those exposures.

In October 2008, one of our counterparties, Lehman Brothers Commercial Corporation, filed for bankruptcy. Consequently, we wrote off an insignificant asset related to derivatives held with them. This did not have a significant impact on our foreign currency risk management program.

Value at Risk:

We use a value at risk ("VAR") computation to estimate: 1) the potential one-day loss in the fair value of our interest rate-sensitive financial instruments; and 2) the potential one-day loss in pre-tax earnings of our foreign currency and commodity price-sensitive derivative financial instruments. We included our debt; short-term investments; foreign currency forwards, swaps and options; and commodity futures, forwards and options in our VAR computation. Anticipated transactions, foreign currency trade payables and receivables, and net investments in foreign subsidiaries, which the abovementioned instruments are intended to hedge, were excluded from the computation.

We made the VAR estimates assuming normal market conditions, using a 95% confidence interval. We used a "variance / co-variance" model to determine the observed interrelationships between movements in interest rates and various currencies. These interrelationships were determined by observing interest rate and forward currency rate movements over the prior quarter for the calculation of VAR amounts at December 31, 2009 and 2008, and over each of the four prior 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.

As of December 31, 2009, the estimated potential one-day loss in fair value of our interest rate-sensitive instruments, primarily debt, under normal market conditions and the estimated potential one-day loss in pre-tax earnings from our foreign currency and commodity instruments under normal market conditions, as calculated in the VAR model, were (in millions):

	Pre-Tax Earnings Impact				Fair Value Impact			
	At 12/31/09	Average	High	Low	At 12/31/09	Average	High	Low
Instruments sensitive to:								
Interest rates					\$ 123	\$ 175	\$ 239	\$ 114
Foreign currency rates	\$ 8	\$ 11	\$ 15	\$ 8				
Commodity prices	31	30	36	24				

	Pre-Tax Earnings Impact				Fair Value Impact			
	At 12/31/08	Average	High	Low	At 12/31/08	Average	High	Low
Instruments sensitive to:								
Interest rates					\$ 175	\$ 161	\$ 216	\$ 106
Foreign currency rates	\$ 19	\$ 15	\$ 21	\$ 8				
Commodity prices	43	66	91	43				

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 represent actual losses in fair value or earnings to be incurred by Kraft Foods, nor does it consider the effect of favorable changes in market rates. We cannot predict actual future movements in such market rates and do 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 our future financial results.

Item 8. Financial Statements and Supplementary Data.

Kraft Foods Inc. and Subsidiaries
Consolidated Statements of Earnings
for the years ended December 31,
(in millions of dollars, except per share data)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net revenues	\$ 40,386	\$ 41,932	\$ 35,858
Cost of sales	<u>25,786</u>	<u>28,088</u>	<u>23,656</u>
Gross profit	14,600	13,844	12,202
Marketing, administration and research costs	9,108	8,862	7,587
Asset impairment and exit costs	(64)	1,024	440
(Gains) / losses on divestitures, net	6	92	(14)
Amortization of intangibles	<u>26</u>	<u>23</u>	<u>13</u>
Operating income	5,524	3,843	4,176
Interest and other expense, net	<u>1,237</u>	<u>1,240</u>	<u>604</u>
Earnings from continuing operations before income taxes	4,287	2,603	3,572
Provision for income taxes	<u>1,259</u>	<u>755</u>	<u>1,080</u>
Earnings from continuing operations	3,028	1,848	2,492
Earnings and gain from discontinued operations, net of income taxes (Note 2)	<u>-</u>	<u>1,045</u>	<u>232</u>
Net earnings	3,028	2,893	2,724
Noncontrolling interest	<u>7</u>	<u>9</u>	<u>3</u>
Net earnings attributable to Kraft Foods	<u>\$ 3,021</u>	<u>\$ 2,884</u>	<u>\$ 2,721</u>
Per share data:			
Basic earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 2.04	\$ 1.22	\$ 1.56
Discontinued operations	<u>-</u>	<u>0.70</u>	<u>0.15</u>
Net earnings attributable to Kraft Foods	<u>\$ 2.04</u>	<u>\$ 1.92</u>	<u>\$ 1.71</u>
Diluted earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 2.03	\$ 1.21	\$ 1.56
Discontinued operations	<u>-</u>	<u>0.69</u>	<u>0.14</u>
Net earnings attributable to Kraft Foods	<u>\$ 2.03</u>	<u>\$ 1.90</u>	<u>\$ 1.70</u>
Dividends declared	\$ 1.16	\$ 1.12	\$ 1.04

See notes to consolidated financial statements.

Kraft Foods Inc. and Subsidiaries
Consolidated Balance Sheets, at December 31,
(in millions of dollars)

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 2,101	\$ 1,244
Receivables (net of allowances of \$121 in 2009 and \$129 in 2008)	5,197	4,704
Inventories, net	3,775	3,881
Deferred income taxes	730	804
Other current assets	651	828
Total current assets	12,454	11,461
Property, plant and equipment, net	10,693	9,917
Goodwill	28,764	27,581
Intangible assets, net	13,429	12,926
Prepaid pension assets	115	56
Other assets	1,259	1,232
TOTAL ASSETS	\$ 66,714	\$ 63,173
LIABILITIES		
Short-term borrowings	\$ 453	\$ 897
Current portion of long-term debt	513	765
Accounts payable	3,766	3,373
Accrued marketing	2,181	1,803
Accrued employment costs	1,175	951
Other current liabilities	3,403	3,255
Total current liabilities	11,491	11,044
Long-term debt	18,024	18,589
Deferred income taxes	4,508	4,064
Accrued pension costs	1,765	2,367
Accrued postretirement health care costs	2,816	2,678
Other liabilities	2,138	2,075
TOTAL LIABILITIES	40,742	40,817
Contingencies (Note 13)		
EQUITY		
Common Stock, no par value (1,735,000,000 shares issued in 2009 and 2008)	-	-
Additional paid-in capital	23,611	23,563
Retained earnings	14,636	13,440
Accumulated other comprehensive losses	(3,955)	(5,994)
Treasury stock, at cost	(8,416)	(8,714)
Total Kraft Foods Shareholders' Equity	25,876	22,295
Noncontrolling interest	96	61
TOTAL EQUITY	25,972	22,356
TOTAL LIABILITIES AND EQUITY	\$ 66,714	\$ 63,173

See notes to consolidated financial statements.

Kraft Foods Inc. and Subsidiaries
Consolidated Statements of Equity
(in millions of dollars, except per share data)

Kraft Foods Shareholders' Equity						
Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings/ (Losses)	Treasury Stock	Noncontrolling Interest	Total Equity
Balances at January 1, 2007	\$ 23,626	\$ 11,109	\$ (3,069)	\$ (3,130)	\$ 26	\$ 28,562
Comprehensive earnings:						
Net earnings	-	2,721	-	-	3	2,724
Other comprehensive earnings, net of income taxes	-	-	1,234	-	2	1,236
Total comprehensive earnings	-	-	-	-	5	3,960
Adoption of new income tax guidance	-	213	-	-	-	213
Exercise of stock options and issuance of other stock awards	-	33	(79)	-	-	247
Net settlement of employee stock awards with Altria Group, Inc. (Note 10)	-	(179)	-	-	-	(179)
Cash dividends declared (\$1.04 per share)	-	-	(1,643)	-	-	(1,643)
Acquisition of noncontrolling interest and other activities	-	-	-	-	7	7
Common Stock repurchased	-	-	-	(3,687)	-	(3,687)
Other	-	(35)	-	-	-	(35)
Balances at December 31, 2007	\$ 23,445	\$ 12,321	\$ (1,835)	\$ (6,524)	\$ 38	\$ 27,445
Comprehensive earnings / (losses):						
Net earnings	-	2,884	-	-	9	2,893
Other comprehensive losses, net of income taxes	-	-	(4,159)	-	(9)	(4,168)
Total comprehensive losses	-	-	-	-	-	(1,275)
Adoption of new benefit plan guidance	-	(8)	-	-	-	(8)
Exercise of stock options and issuance of other stock awards	-	118	(81)	-	-	268
Cash dividends declared (\$1.12 per share)	-	-	(1,676)	-	-	(1,676)
Acquisitions of noncontrolling interest and other activities	-	-	-	-	23	23
Common Stock repurchased	-	-	-	(777)	-	(777)
Common Stock tendered (Note 2)	-	-	-	(1,644)	-	(1,644)
Balances at December 31, 2008	\$ 23,563	\$ 13,440	\$ (5,994)	\$ (8,714)	\$ 61	\$ 22,356
Comprehensive earnings:						
Net earnings	-	3,021	-	-	7	3,028
Other comprehensive earnings, net of income taxes	-	-	2,039	-	34	2,073
Total comprehensive earnings	-	-	-	-	41	5,101
Exercise of stock options and issuance of other stock awards	-	49	(110)	-	-	237
Cash dividends declared (\$1.16 per share)	-	-	(1,715)	-	-	(1,715)
Dividends paid on noncontrolling interest and other activities	-	(1)	-	-	(6)	(7)
Balances at December 31, 2009	\$ 23,611	\$ 14,636	\$ (3,955)	\$ (8,416)	\$ 96	\$ 25,972

See notes to consolidated financial statements.

Kraft Foods Inc. and Subsidiaries
Consolidated Statements of Cash Flows
for the years ended December 31,
(in millions of dollars)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES			
Net earnings	\$ 3,028	\$ 2,893	\$ 2,724
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	931	986	886
Stock-based compensation expense	164	178	136
Deferred income tax provision / (benefit)	38	(208)	(389)
(Gains) / losses on divestitures, net	6	92	(14)
Gain on discontinued operations (Note 2)	-	(926)	-
Asset impairment and exit costs, net of cash paid	17	731	209
Other non-cash expense, net	269	87	115
Change in assets and liabilities, excluding the effects of acquisitions and divestitures:			
Receivables, net	(17)	(39)	(268)
Inventories, net	299	(151)	(404)
Accounts payable	126	29	241
Amounts due to Altria Group, Inc. and affiliates	-	-	(93)
Other current assets	351	(535)	161
Other current liabilities	111	985	186
Change in pension and postretirement assets and liabilities, net	(239)	19	81
Net cash provided by operating activities	<u>5,084</u>	<u>4,141</u>	<u>3,571</u>
CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES			
Capital expenditures	(1,330)	(1,367)	(1,241)
Acquisitions, net of cash received	-	(99)	(7,437)
Proceeds from divestitures, net of disbursements	41	97	216
Other	50	49	46
Net cash used in investing activities	<u>(1,239)</u>	<u>(1,320)</u>	<u>(8,416)</u>
CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES			
Net (repayment) / issuance of short-term borrowings	(446)	(5,912)	5,649
Long-term debt proceeds	3	7,018	6,495
Long-term debt repaid	(968)	(795)	(1,472)
Decrease in amounts due to Altria Group, Inc. and affiliates	-	-	(149)
Repurchase of Common Stock	-	(777)	(3,708)
Dividends paid	(1,712)	(1,663)	(1,638)
Other	(10)	72	(56)
Net cash (used in) / provided by financing activities	<u>(3,133)</u>	<u>(2,057)</u>	<u>5,121</u>
Effect of exchange rate changes on cash and cash equivalents	<u>145</u>	<u>(87)</u>	<u>52</u>
Cash and cash equivalents:			
Increase	857	677	328
Balance at beginning of period	1,244	567	239
Balance at end of period	<u>\$ 2,101</u>	<u>\$ 1,244</u>	<u>\$ 567</u>
Cash paid:			
Interest	<u>\$ 1,262</u>	<u>\$ 968</u>	<u>\$ 628</u>
Income taxes	<u>\$ 1,025</u>	<u>\$ 964</u>	<u>\$ 1,366</u>

See notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies:

Nature of Operations and Basis of Presentation:

Kraft Foods Inc. was incorporated in 2000 in the Commonwealth of Virginia. Kraft Foods Inc., through its subsidiaries (collectively "Kraft Foods," "we," "us" and "our"), sells packaged food and beverage products to consumers in approximately 160 countries.

Prior to June 13, 2001, Kraft Foods was a wholly owned subsidiary of Altria Group, Inc. ("Altria"). On June 13, 2001, we completed an initial public offering of 280,000,000 shares of our Class A common stock ("Common Stock"). In the first quarter of 2007, Altria spun off its remaining interest (89.0%) in Kraft Foods on a pro rata basis to Altria stockholders in a tax-free transaction. Effective as of the close of business on March 30, 2007, all Kraft Foods shares owned by Altria were distributed to Altria's stockholders, and our separation from Altria was completed.

Principles of Consolidation:

The consolidated financial statements include Kraft Foods, as well as our wholly owned and majority owned subsidiaries. Our domestic operating subsidiaries report year-end results as of the last Saturday of the year, and our international operating subsidiaries generally report year-end results two weeks prior to the last Saturday of the year.

We account for investments in which we exercise significant influence (20%-50% ownership interest) under the equity method of accounting. We use the cost method of accounting for investments in which we have an ownership interest of less than 20% and in which we do not exercise significant influence. Noncontrolling interest in subsidiaries consists of the equity interest of noncontrolling investors in consolidated subsidiaries of Kraft Foods. All intercompany transactions are eliminated.

Use of Estimates:

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require us to make estimates and assumptions that affect a number of amounts in our financial statements. Significant accounting policy elections, estimates and assumptions include, among others, pension and benefit plan assumptions, lives and valuation assumptions of goodwill and intangible assets, marketing programs and income taxes. We base our estimates on historical experience and other assumptions that we believe are reasonable. If actual amounts differ from estimates, we include the revisions in our consolidated results of operations in the period the actual amounts become known. Historically, the aggregate differences, if any, between our estimates and actual amounts in any year have not had a significant impact on our consolidated financial statements.

Foreign Currencies:

We translate the results of operations of our foreign subsidiaries using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. We record currency translation adjustments as a component of equity. Transaction gains and losses are recorded in earnings and were not significant for any of the periods presented.

Highly Inflationary Accounting:

In the fourth quarter of 2009, the Venezuelan economy was classified as highly inflationary under U.S. GAAP. Effective January 1, 2010, our Venezuelan subsidiary is being accounted for under highly inflationary accounting rules, which principally means all transactions are recorded in U.S. dollars. Venezuela has three exchange rates: the official rate, the consumer staples rate and the secondary (or parallel) rate. We have historically used and will continue to use the official rate to translate our Venezuelan operations. However, prior to this change in accounting, cash that we had exchanged into U.S. dollars using the secondary market was carried at that rate. Upon the change to highly inflationary accounting, we were required to translate our U.S. dollars on hand using the official rate. Additionally, on January 8, 2010, the Venezuelan government devalued its currency. Accordingly, we were required to revalue our net assets in Venezuela and we recorded an insignificant loss, which will be reflected in our first quarter 2010 results. This disclosure does not reflect the impacts of our recent acquisition activity.

Cash and Cash Equivalents:

Cash equivalents include demand deposits with banks and all highly liquid investments with original maturities of three months or less.

Inventories:

Inventories are stated at the lower of cost or market. We record inventory allowances for overstocked and obsolete inventories due to ingredient and packaging changes. Effective January 1, 2009, we changed our method of valuing our U.S. inventories to the average cost method. In prior years, principally all U.S. inventories were valued using the last-in, first-out ("LIFO") method. We believe that the average cost method of accounting for U.S. inventories is preferable and will improve financial reporting by better matching revenues and expenses to current costs, by better aligning our external reporting with our competitors, and by aligning our external reporting with our tax basis of accounting. The financial statements for all periods presented were conformed to the change in accounting policy. With this change, we value all of our inventories using the average cost method.

The following line items within the statements of earnings were affected by the change in accounting policy:

For the Year Ended December 31, 2009				
	As Computed under LIFO		As Reported under Average Cost	Favorable / (Unfavorable)
	(in millions, except per share data)			
Cost of sales	\$ 25,691	\$	25,786	\$ (95)
Provision for income taxes	1,294		1,259	35
Earnings from continuing operations	3,088		3,028	(60)
Earnings and gain from discontinued operations, net of income taxes	-		-	-
Net earnings attributable to Kraft Foods	3,081		3,021	(60)
Basic earnings per share attributable to Kraft Foods:				
Continuing operations	\$ 2.08	\$	2.04	\$ (0.04)
Discontinued operations	-		-	-
Net earnings attributable to Kraft Foods	<u>\$ 2.08</u>	<u>\$</u>	<u>2.04</u>	<u>\$ (0.04)</u>
Diluted earnings per share attributable to Kraft Foods:				
Continuing operations	\$ 2.07	\$	2.03	\$ (0.04)
Discontinued operations	-		-	-
Net earnings attributable to Kraft Foods	<u>\$ 2.07</u>	<u>\$</u>	<u>2.03</u>	<u>\$ (0.04)</u>

For the Year Ended December 31, 2008				
	As Computed under LIFO		As Reported under Average Cost	Favorable / (Unfavorable)
	(in millions, except per share data)			
Cost of sales	\$ 28,105	\$	28,088	\$ 17
Provision for income taxes	728		755	(27)
Earnings from continuing operations	1,858		1,848	(10)
Earnings and gain from discontinued operations, net of income taxes	1,052		1,045	(7)
Net earnings attributable to Kraft Foods	2,901		2,884	(17)
Basic earnings per share attributable to Kraft Foods:				
Continuing operations	\$ 1.23	\$	1.22	\$ (0.01)
Discontinued operations	0.70		0.70	-
Net earnings attributable to Kraft Foods	<u>\$ 1.93</u>	<u>\$</u>	<u>1.92</u>	<u>\$ (0.01)</u>
Diluted earnings per share attributable to Kraft Foods:				
Continuing operations	\$ 1.22	\$	1.21	\$ (0.01)
Discontinued operations	0.69		0.69	-
Net earnings attributable to Kraft Foods	<u>\$ 1.91</u>	<u>\$</u>	<u>1.90</u>	<u>\$ (0.01)</u>

For the Year Ended December 31, 2007			
	As Computed under LIFO	As Reported under Average Cost	Favorable / (Unfavorable)
(in millions, except per share data)			
Cost of sales	\$ 23,864	\$ 23,656	\$ 208
Gains on divestitures, net	15	14	(1)
Provision for income taxes	1,002	1,080	(78)
Earnings from continuing operations	2,363	2,492	129
Earnings and gain from discontinued operations, net of income taxes	230	232	2
Net earnings attributable to Kraft Foods	2,590	2,721	131
Basic earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 1.48	\$ 1.56	\$ 0.08
Discontinued operations	0.15	0.15	-
Net earnings attributable to Kraft Foods	\$ 1.63	\$ 1.71	\$ 0.08
Diluted earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 1.48	\$ 1.56	\$ 0.08
Discontinued operations	0.14	0.14	-
Net earnings attributable to Kraft Foods	\$ 1.62	\$ 1.70	\$ 0.08

The following line items within the balance sheets were affected by the change in accounting policy:

December 31, 2009			
	As Computed under LIFO	As Reported under Average Cost	Favorable / (Unfavorable)
(in millions)			
Inventories, net	\$ 3,718	\$ 3,775	\$ (57)
Deferred income tax asset	752	730	22
Retained earnings	14,601	14,636	35

December 31, 2008			
	As Computed under LIFO	As Reported under Average Cost	Favorable / (Unfavorable)
(in millions)			
Inventories, net	\$ 3,729	\$ 3,881	\$ (152)
Deferred income tax asset	861	804	57
Retained earnings	13,345	13,440	95

As a result of the accounting change, retained earnings as of January 1, 2007, decreased from \$11,128 million, as computed using the LIFO method, to \$11,109 million using the average cost method.

There was no impact to net cash provided by operating activities as a result of this change in accounting policy.

Long-Lived Assets:

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.

We review long-lived assets, including amortizable intangible assets, for impairment when conditions exist that indicate the carrying amount of the assets may not be fully recoverable. We perform undiscounted operating cash flow analyses to determine if an impairment exists. When testing assets held for use for impairment, we group assets and liabilities at the lowest level for which cash flows are separately identifiable. If an impairment is determined to exist, the loss is calculated based on estimated 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.

Software Costs:

We capitalize 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 and amortized on a straight-line basis over the estimated useful lives of the software, which do not exceed seven years.

Goodwill and Intangible Assets:

We test goodwill and non-amortizable intangible assets at least annually for impairment. We have recognized goodwill in our reporting units, which are generally one level below our operating segments. We use a two step process to test goodwill at the reporting unit level. The first step involves a comparison of the estimated fair value of each reporting unit with its carrying value. Fair value is estimated using discounted cash flows of the reporting unit based on planned growth rates, and estimates of discount rates and residual values. If the carrying value exceeds the fair value, the second step of the process is necessary. The second step measures the difference between the carrying value and implied fair value of goodwill. To test non-amortizable intangible assets for impairment, we compare the fair value of the intangible asset with its carrying value. Fair value of non-amortizable intangible assets is determined using our planned growth rates, and estimates of discount rates and royalty rates. If the carrying value exceeds fair value, the intangible asset is considered impaired and is reduced to fair value. Definite-lived intangible assets are amortized over their estimated useful lives.

We perform our annual impairment review of goodwill and non-amortizable intangible assets as of October 1 each year. The basis of our valuation methodology for estimating the fair value of our 20 reporting units is a 20-year projection of discounted cash flows that is based on our annual strategic planning process. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans, industry and economic conditions. For our reporting units within our Kraft Foods North America and Kraft Foods Europe geographic units, we used a market-participant, weighted-average cost of capital of 7.5% to discount the projected cash flows of those operations. For our reporting units within our Kraft Foods Developing Markets geographic unit, we used a risk-rated discount rate of 10.5%.

Insurance and Self-Insurance:

We use a combination of insurance and self-insurance for a number of risks, including workers' compensation, general liability, automobile liability, product liability and our obligation for employee healthcare benefits. Liabilities associated with the risks are estimated by considering historical claims experience and other actuarial assumptions.

Revenue Recognition:

We recognize revenues when title and risk of loss pass to customers, which generally occurs upon shipment or delivery of goods. Revenues are recorded net of consumer incentives and trade promotions and include all shipping and handling charges billed to customers. Kraft Foods' shipping and handling costs are classified as part of cost of sales. A provision for product returns and allowances for bad debts are also recorded as reductions to revenues within the same period that the revenue is recognized.

Excise Taxes:

Effective January 1, 2009, we changed our classification of certain excise taxes to a net presentation within cost of sales. In prior years, excise taxes were classified gross within net revenues and cost of sales. With this change, we report all of our excise and similar taxes using the net presentation method. We made this change to better align our net revenues between various countries and to provide better clarity to net revenues and margins. As a result, we removed \$269 million in 2008 and \$276 million in 2007 from net revenues, and netted the amounts within cost of sales. If we had not made this change, in 2009, net revenues of \$40,386 million would have been \$40,621 million, and cost of sales of \$25,786 million would have been \$26,021 million. This change did not have a material impact on our net revenues or cost of sales.

Marketing, Administration and Research Costs:

Marketing - We promote our products with advertising, consumer incentives and trade promotions. These programs include, but are not limited to, discounts, coupons, rebates, in-store display incentives and volume-based incentives. We expense advertising costs either in the period the advertising first takes place or as incurred. Consumer incentive and trade promotion activities are recorded as a reduction to revenues based on amounts estimated as being due to customers and consumers at the end of a period. We base these estimates principally on historical

utilization and redemption rates. For interim reporting purposes, advertising and consumer incentive expenses are charged to operations as a percentage of volume, based on estimated volume and related expense for the full year. We do not defer costs on our year-end consolidated balance sheet and all marketing costs are recorded as an expense in the year incurred. Advertising expense was \$1,648 million in 2009, \$1,639 million in 2008 and \$1,471 million in 2007.

Research - We expense costs as incurred for product research and development. Research and development expense was \$477 million in 2009, \$498 million in 2008 and \$442 million in 2007.

Environmental Costs:

We are subject to laws and regulations relating to the protection of the environment. We accrue for environmental remediation obligations on an undiscounted basis when amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change. Recoveries of environmental remediation costs from third parties are recorded as assets when recovery of those costs is deemed probable. At December 31, 2009, our subsidiaries were involved in 71 active actions in the U.S. under Superfund legislation (and other similar actions) related to current operations and certain former or divested operations for which we retain liability.

Based on information currently available, we believe that the ultimate resolution of existing environmental remediation actions and our compliance in general with environmental laws and regulations will not have a material effect on our financial results. However, we cannot quantify with certainty the potential impact of future compliance efforts and environmental remediation actions.

Employee Benefit Plans:

In September 2006, new guidance was issued surrounding employers' accounting for defined benefit pension and other postretirement plans. The new guidance required us to measure plan assets and benefit obligations as of the balance sheet date beginning in 2008. We previously measured our non-U.S. pension plans (other than certain Canadian and French pension plans) at September 30 of each year. On December 31, 2008, we recorded an after-tax decrease of \$8 million to retained earnings using the 15-month approach to proportionally allocate the transition adjustment required upon adoption of the measurement provision of the new guidance. The plan assets and benefit obligations of our pension plans and the benefit obligations of our postretirement plans are now all measured at year-end.

We provide a range of benefits to our employees and retired employees. These include pension benefits, postretirement health care benefits and postemployment benefits, consisting primarily of severance. We provide pension coverage for certain employees of our non-U.S. subsidiaries through separate plans. Local statutory requirements govern many of these plans. For salaried and non-union hourly employees hired in the U.S. after January 1, 2009, we discontinued benefits under our U.S. pension plans, and we replaced them with an enhanced company contribution to our employee savings plan. Additionally, we will be freezing the U.S. pension plans for current salaried and non-union hourly employees effective December 31, 2019. Pension accruals for all salaried and non-union employees who are currently earning pension benefits will end on December 31, 2019, and continuing pay and service will be used to calculate the pension benefits through December 31, 2019. Our projected benefit obligation decreased \$168 million in 2009, and we incurred a \$5 million curtailment charge in 2009 related to the freeze. Our U.S. and Canadian subsidiaries provide health care and other benefits to most retired employees. Local government plans generally cover health care benefits for retirees outside the U.S. and Canada. Our postemployment benefit plans cover most salaried and certain hourly employees. The cost of these plans is charged to expense over the working life of the covered employees.

Financial Instruments:

As we operate globally, we use certain financial instruments to manage our foreign currency exchange rate, commodity price and interest rate risks. We monitor and manage these exposures as part of our overall risk management program. Our risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results. We maintain foreign currency, commodity price and interest rate risk management strategies that seek to reduce significant, unanticipated earnings fluctuations that may arise from volatility in foreign currency exchange rates, commodity prices and interest rates, principally through the use of derivative instruments.

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. We formally document the nature of and relationships between the hedging instruments and hedged items, as well as our 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 we deem it probable that the forecasted transaction will not occur, we recognize the gain or loss in earnings currently.

By using derivatives to hedge exposures to changes in exchange rates, commodity prices and interest rates, we have exposure on these derivatives to credit and market risk. We are exposed to credit risk that the counterparty might fail to fulfill its performance obligations under the terms of the derivative contract. We minimize our credit risk by entering into transactions with high quality counterparties with investment grade credit ratings, limiting the amount of exposure we have with each counterparty and monitoring the financial condition of our counterparties. In October 2008, one of our counterparties, Lehman Brothers Commercial Corporation, filed for bankruptcy. Consequently, we wrote off an insignificant asset related to derivatives held with them. This did not have a significant impact on our foreign currency risk management program. We also maintain a policy of requiring that all significant, non-exchange traded derivative contracts with a duration greater than one year be governed by an International Swaps and Derivatives Association master agreement. Market risk is the risk that the value of the financial instrument might be adversely affected by a change in foreign currency exchange rates, commodity prices or interest rates. We manage market risk by incorporating monitoring parameters within our risk management strategy that limit the types of derivative instruments and derivative strategies we use, and the degree of market risk that may be undertaken by the use of derivative instruments.

We record derivative financial instruments at fair value in our consolidated balance sheets as either current assets or current liabilities. Cash flows from hedging instruments are classified in the same manner as the affected hedged item in the consolidated statements of cash flows.

Commodity cash flow hedges - We are exposed to price risk related to forecasted purchases of certain commodities that we primarily use as raw materials. Accordingly, we use commodity forward contracts as cash flow hedges, primarily for meat, coffee, dairy, sugar, cocoa and wheat. Commodity forward contracts generally qualify for the normal purchase exception under guidance for derivative instruments and hedging activities, and therefore are not subject to its provisions. We use commodity futures and options to hedge the price of certain input costs, including dairy, coffee, cocoa, wheat, corn products, soybean oils, meat products, sugar, natural gas and heating oil. Some of these derivative instruments are highly effective and qualify for hedge accounting treatment. We also sell commodity futures to unprice future purchase commitments, and we occasionally use related futures to cross-hedge a commodity exposure. We are not a party to leveraged derivatives and, by policy, do not use financial instruments for speculative purposes.

For those derivative instruments that are highly effective and qualify for hedge accounting treatment, we defer the effective portion of unrealized gains and losses on commodity futures and option contracts as a component of accumulated other comprehensive earnings / (losses). We recognize the deferred portion as a component of cost of sales when the related inventory is sold. Ineffectiveness is directly recorded as a component of cost of sales. For the derivative instruments that we consider economic hedges but do not designate for hedge accounting treatment, we recognize gains and losses directly as a component of cost of sales.

Foreign currency cash flow hedges - We use various financial instruments to mitigate our exposure to changes in exchange rates from third-party and intercompany actual and forecasted transactions. These instruments include forward foreign exchange contracts, foreign currency swaps and foreign currency options. Based on the size and location of our businesses, we use these instruments to hedge our exposure to certain currencies, including the euro, Swiss franc, British pound and Canadian dollar.

For those derivative instruments that are highly effective and qualify for hedge accounting treatment, we defer the effective portion of unrealized gains and losses associated with forward, swap and option contracts as a component of accumulated other comprehensive earnings / (losses) until the underlying hedged transactions are reported in earnings. We recognize the deferred portion as a component of cost of sales when the related inventory is sold or as

interest and other expense, net for our hedges of intercompany loans, when the payments are made. For those derivative instruments that we consider economic hedges but do not designate for hedge accounting treatment, we recognize gains and losses directly as a component of cost of sales or interest and other expense, net, depending on the nature of the underlying transaction.

Interest rate cash flow and fair value hedges - We manage interest rate volatility by modifying the repricing or maturity characteristics of certain liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate liabilities appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by our gains or losses on the derivative instruments that are linked to these hedged liabilities.

We use derivative instruments, including interest rate swaps that have indices related to the pricing of specific liabilities as part of our interest rate risk management strategy. As a matter of policy, we do not use highly leveraged derivative instruments for interest rate risk management. We use interest rate swaps to economically convert a portion of our nonprepayable fixed-rate debt into variable-rate debt. Under the interest rate swap contracts, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts, which is calculated based on an agreed-upon notional amount. We also use interest rate swaps to hedge the variability of interest payment cash flows on a portion of our future debt obligations. Substantially all of these derivative instruments are highly effective and qualify for hedge accounting treatment.

For those derivative instruments that are highly effective and qualify for hedge accounting treatment, we either record the impacts in current period earnings or defer the effective portion of unrealized gains and losses as a component of accumulated other comprehensive earnings / (losses), depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge. For fair value hedges, we record both (i) the gains or losses on interest rate swaps and (ii) the corresponding changes in fair value of the hedged long-term debt directly as a component of interest and other expense, net. For cash flow hedges, we recognize the deferred portion as a component of interest and other expense, net when we incur the interest expense. The ineffective portion is directly recorded as a component of interest and other expense, net. For the derivative instruments that we consider economic hedges but do not designate for hedge accounting treatment, we recognize gains and losses directly as a component of interest and other expense, net.

Hedges of net investments in foreign operations - We have numerous investments in foreign subsidiaries. The net assets of these subsidiaries are exposed to volatility in foreign currency exchange rates. We use foreign-currency-denominated debt to hedge our net investment in foreign operations against adverse movements in exchange rates. We designated our euro denominated borrowings as a net investment hedge of a portion of our overall European operations. The gains and losses on our net investment in these designated European operations are economically offset by losses and gains on our euro denominated borrowings. The change in the debt's fair value is recorded in the currency translation adjustment component of accumulated other comprehensive earnings / (losses).

Guarantees:

Authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees requires us to disclose certain guarantees and to recognize a liability for the fair value of the obligation of qualifying guarantee activities. See Note 13, *Commitments and Contingencies* for a further discussion of guarantees.

Income Taxes:

Prior to our spin-off from Altria, we were included in Altria's consolidated federal income tax return. We generally computed income taxes on a separate company basis; however, some of our foreign tax credits, capital losses and other credits could not be used on a separate company basis. To the extent that Altria used our foreign tax credits and other tax benefits in its consolidated federal income tax return, we recognized the benefit in the calculation of our provision for income taxes. This benefit was approximately \$270 million in 2007. We made payments to, or were reimbursed by, Altria for the tax effects resulting from being included in Altria's tax return. As of March 31, 2007, we were no longer a member of the Altria consolidated tax return group. We file our own federal consolidated income tax returns. As a result of the spin-off, Altria transferred our federal tax contingencies to our balance sheet and related interest income of \$77 million in 2007. Additionally, during 2007, Altria paid us \$305 million for the federal tax contingencies held by them, less the impact of federal reserves reversed due to the adoption of new guidance, discussed below, which addressed accounting for the uncertainty in income taxes. This amount was reflected as a

component of the change in other current assets within the net cash provided by operating activities section of the consolidated statement of cash flows.

In July 2006, new guidance was issued which addressed accounting for the uncertainty in income taxes. We adopted the guidance effective January 1, 2007. The guidance clarified when tax benefits should be recorded in the financial statements and provided measurement criteria for valuing such benefits. In order for us to recognize benefits, our tax position must be more likely than not to be sustained upon audit. The amount we recognize is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Before the implementation of the guidance, we established additional provisions for certain positions that were likely to be challenged even though we believe that those existing tax positions were fully supportable. The adoption of this guidance resulted in an increase to equity as of January 1, 2007 of \$213 million.

We recognize deferred tax assets for deductible temporary differences, operating loss carryforwards and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

Reclassification:

In 2009, we separately disclosed other non-cash expense, net within the net cash provided by operating activities section of the consolidated statement of cash flows and made conforming changes to the presentation in prior years. This change did not have an impact on cash provided by operating activities for any of the periods presented. In 2009, we also changed our cost assignment methodology for headquarter functional costs across our operating structure. As a result, we reclassified \$188 million in 2008 and \$83 million in 2007 from marketing, administration and research costs to cost of sales. This change did not have an impact on net earnings for any of the periods presented.

New Accounting Pronouncements:

In September 2006, new guidance was issued on fair value measurements. The guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The effective date of the guidance for items recognized or disclosed at fair value on an annual or more frequently recurring basis was January 1, 2008. The effective date of the guidance for all other nonfinancial assets and liabilities was January 1, 2009. As such, we partially adopted the guidance effective January 1, 2008. The partial adoption of this guidance did not have a material impact on our financial statements. We adopted the remaining provisions effective January 1, 2009. This adoption affects the way that we calculate fair value for our annual impairment review of goodwill and non-amortizable intangible assets, and when conditions exist that require us to calculate the fair value of long-lived assets; however, this adoption did not have a material impact on our financial statements.

In December 2007, new guidance was issued on business combinations. We adopted the guidance effective January 1, 2009. The guidance requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose all information needed by investors to understand the nature and financial effect of the business combination. The adoption of this guidance did not have a material impact on our financial statements.

In December 2007, new guidance was also issued on noncontrolling interests in consolidated financial statements. We adopted the guidance effective January 1, 2009. The guidance requires us to classify noncontrolling interests in subsidiaries as a separate component of equity instead of within other liabilities. Additionally, transactions between an entity and noncontrolling interests must be treated as equity transactions. Therefore, they no longer are removed from net income, but rather are accounted for as equity. The adoption of this guidance did not have a material impact on our financial statements.

In June 2008, new guidance was issued to assist in determining whether instruments granted in share-based payment transactions are participating securities. We adopted the guidance effective January 1, 2009. The guidance considers unvested share-based payment awards with the right to receive nonforfeitable dividends, or their equivalents, participating securities that should be included in the calculation of EPS under the two-class method. Accordingly, our restricted and deferred stock awards are now considered participating units in our calculation of EPS. The adoption of this guidance did not have a material impact on our financial statements.

In May 2009, new guidance was issued on subsequent events that requires management to evaluate subsequent events through the date the financial statements are either issued or available to be issued, depending on the company's expectation of whether it will widely distribute its financial statements to its shareholders and other financial statement users. Companies are required to disclose the date through which subsequent events have been evaluated. We adopted the guidance effective June 30, 2009.

In June 2009, new guidance was issued on the consolidation of variable interest entities. The provisions are effective for Kraft Foods as of January 1, 2010. This guidance improves the financial reporting by enterprises involved with variable interest entities. We do not expect the adoption of this guidance to have a material impact on our financial statements.

Note 2. Acquisitions and Divestitures:

Cadbury Acquisition:

On January 19, 2010, we announced the terms of our final offer for each outstanding ordinary share of Cadbury plc ("Cadbury"), including each ordinary share represented by an American Depositary Share ("Cadbury ADS"), and the Cadbury board of directors recommended that Cadbury shareholders accept the terms of the final offer. Under the terms of the offer, we agreed to pay Cadbury shareholders 500 pence in cash and 0.1874 shares of Kraft Foods Common Stock per Cadbury ordinary share validly tendered and 2,000 pence in cash and 0.7496 shares of Kraft Foods Common Stock per Cadbury ADS validly tendered. This valued each Cadbury ordinary share at 840 pence and each Cadbury ADS at £33.60 (based on the closing price of \$29.58 for a share of Kraft Foods Common Stock on January 15, 2010 and an exchange rate of \$1.63 per £1.00) and valued the entire issued share capital of Cadbury at £11.9 billion (approximately \$19.4 billion) on January 15, 2010, the last trading day before the publication of our final offer. The combination of Kraft Foods and Cadbury will create a global powerhouse in snacks, confectionery and quick meals with a rich portfolio of iconic brands.

On February 2, 2010, all of the conditions to the offer were satisfied or validly waived, the initial offer period expired and a subsequent offer period immediately began. At that point, we had received acceptances of 71.73% of the outstanding Cadbury ordinary shares, including those represented by Cadbury ADSs. The subsequent offer period remains open until further notice and at least 14 days of notice will be given if Kraft Foods decides to close the offer. As of February 15, 2010, we had received acceptances of 1,262,356,520 shares representing 91.02% of the outstanding Cadbury ordinary shares, including those represented by Cadbury ADSs. As we have received acceptances of over 90% of Cadbury shares, we are in the process of acquiring the remaining Cadbury ordinary shares that are not tendered in the offer, including those represented by Cadbury ADSs, through a compulsory acquisition procedure under the United Kingdom Companies Act of 2006, as amended. Additionally, as a condition of the EU Commission's approval of the Cadbury acquisition, we are required to divest confectionery operations in Poland and Romania. As part of our acquisition of Cadbury, we expensed approximately \$40 million in transaction related fees in 2009 as we incurred them, and we also incurred \$40 million in financing fees in 2009 related to the acquisition.

The accounting for our Cadbury acquisition was incomplete at the time we issued our financial statements. Accordingly, it is impracticable for us to make certain business combination disclosures. At the time of filing, it was impracticable for us to: A) Complete a reconciliation of Cadbury's IFRS financial statements to U.S. GAAP. Accordingly, we were unable to present the acquisition date fair value of assets acquired and liabilities assumed, or assets and liabilities arising from contingencies. B) Calculate the amount of goodwill and intangibles acquired and the total amount of goodwill that is expected to be deductible for tax purposes. C) Provide proforma segment disclosures. And D) present supplemental proforma combined information on a U.S. GAAP basis for the most recent period presented.

Pizza Divestiture:

On January 4, 2010, we entered into an agreement to sell the assets of our North American frozen pizza business ("Frozen Pizza") to Nestlé USA, Inc. ("Nestlé") for total consideration of \$3.7 billion. Our Frozen Pizza business is a component of our U.S. Convenient Meals and Canada & North America Foodservice segments. The sale, which is subject to customary conditions, including regulatory clearances, includes the *DiGiorno*, *Tombstone* and *Jack's* brands in the U.S., the *Delissio* brand in Canada and the *California Pizza Kitchen* trademark license. It also includes

two Wisconsin manufacturing facilities (Medford and Little Chute) and the leases for the pizza depots and delivery trucks. It is estimated that approximately 3,400 of our employees will transfer with the business to Nestlé. We anticipate that the transaction will close in the first quarter of 2010.

At December 31, 2009, the Frozen Pizza business did not meet the criteria to be considered held-for-sale. Beginning in the first quarter of 2010, the results of the Frozen Pizza business will be presented as a discontinued operation in our consolidated financial statements and prior periods will be restated in a consistent manner. The following reflects the summary results for the Frozen Pizza business that will be treated as a discontinued operation going forward:

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Net revenues	\$ 1,632	\$ 1,440	\$ 1,278
Earnings from operations before income taxes	341	267	237
Provision for income taxes	(123)	(97)	(87)
Net earnings from operations of the Frozen Pizza business	\$ 218	\$ 170	\$ 150

Earnings from operations before income taxes as presented exclude stranded overheads of \$108 million in 2009, \$112 million in 2008 and \$111 million in 2007.

Post Cereals Split-off:

On August 4, 2008, we completed the split-off of the Post cereals business into Ralcorp Holdings, Inc. ("Ralcorp"), after an exchange with our shareholders. Accordingly, the Post cereals business prior period results were reflected as discontinued operations on the consolidated statement of earnings. The exchange was expected to be tax-free to participating shareholders for U.S. federal income tax purposes.

In this split-off transaction, approximately 46.1 million shares of Kraft Foods Common Stock were tendered for \$1,644 million. Our shareholders had the option to exchange some or all of their shares of Kraft Foods Common Stock and receive shares of common stock of Cable Holdco, Inc. ("Cable Holdco"). Cable Holdco was our wholly owned subsidiary that owned certain assets and liabilities of the Post cereals business. In exchange for the contribution of the Post cereals business, Cable Holdco issued approximately \$665 million in debt securities, issued shares of its common stock and assumed a \$300 million credit facility. Upon closing, we used the cash equivalent net proceeds, approximately \$960 million, to repay debt.

The Post cereals business included such brands as *Honey Bunches of Oats*, *Pebbles*, *Shredded Wheat*, *Selects*, *Grape-Nuts* and *Honeycomb*. Under Kraft Foods, the brands in this transaction were distributed primarily in North America. In addition to the Post brands, the transaction included four manufacturing facilities, certain manufacturing equipment and approximately 1,230 employees who joined Ralcorp as part of the transaction.

Pursuant to the Post cereals business Transition Services Agreement, we provided certain sales, co-manufacturing, distribution, information technology, and accounting and finance services to Ralcorp through 2009.

Summary results of operations for the Post cereals business through August 4, 2008, were as follows:

	For the Years Ended December 31,	
	2008	2007
	(in millions)	
Net revenues	\$ 666	\$ 1,107
Earnings before income taxes	189	369
Provision for income taxes	(70)	(137)
Gain on discontinued operations, net of income taxes	926	-
Earnings and gain from discontinued operations, net of income taxes	\$ 1,045	\$ 232

The following assets of the Post cereals business were included in the Post split-off (in millions):

Inventories, net	\$	94
Property, plant and equipment, net		425
Goodwill		1,234
Other assets		11
Other liabilities		(3)
Distributed assets of the <i>Post</i> cereals business	\$	<u>1,761</u>

LU Biscuit Acquisition:

On November 30, 2007, we acquired the Groupe Danone S.A. global *LU* biscuit business ("*LU Biscuit*") for € 5.1 billion (approximately \$7.6 billion) in cash. The acquisition included 32 manufacturing facilities and approximately 14,000 employees. During 2008, we repaid Groupe Danone S.A. for excess cash received upon the acquisition. *LU Biscuit* reports results from operations on a one month lag; accordingly, there was no effect on our 2007 operating results. On a proforma basis, *LU Biscuit* would have contributed net revenues of \$2.8 billion during 2007, and *LU Biscuit*'s contribution to net earnings would have been insignificant to Kraft Foods.

Other Divestitures:

In 2009, we received \$41 million in net proceeds and recorded pre-tax losses of \$6 million on the divestitures of our *Balance* bar operations in the U.S., a juice operation in Brazil and a plant in Spain. We recorded after-tax gains of \$58 million on these divestitures, primarily due to the differing book and tax bases of our *Balance* bar operations.

In 2008, we received \$153 million in net proceeds, and recorded pre-tax losses of \$92 million on divestitures, primarily related to a Nordic and Baltic snacks operation and four operations in Spain. We recorded after-tax losses of \$64 million on these divestitures.

Included in the 2008 divestitures were the following, which were a condition of the EU Commission's approval of our *LU Biscuit* acquisition:

- We divested a biscuit operation in Spain. From this divestiture, we received \$86 million in net proceeds and recorded pre-tax losses of \$74 million.
- We divested another biscuit operation in Spain and a trademark in Hungary that we had previously acquired as part of the *LU Biscuit* acquisition. As such, the impacts of these divestitures were reflected as adjustments to the purchase price allocations.

In 2007, we received \$216 million in net proceeds and recorded pre-tax gains of \$14 million on the divestitures of our hot cereal assets and trademarks, our sugar confectionery assets in Romania and related trademarks and our flavored water and juice brand assets and related trademarks, including *Veryfine* and *Fruit2O*. We recorded an after-tax loss of \$5 million on these divestitures to reflect the differing book and tax bases of our hot cereal assets and trademarks divestiture.

These gains and losses on divestitures do not reflect the related asset impairment charges discussed in Note 5, *Goodwill and Intangible Assets*.

The aggregate operating results of the divestitures discussed above, other than the divestiture of the *Post* cereals business, were not material to our financial statements in any of the periods presented. Refer to Note 16, *Segment Reporting*, for details of the gains and losses on divestitures by segment.

Note 3. Inventories:

Inventories at December 31, 2009 and 2008 were:

	<u>2009</u>	<u>2008</u>
	(in millions)	
Raw materials	\$ 1,410	\$ 1,568
Finished product	2,365	2,313
Inventories, net	<u>\$ 3,775</u>	<u>\$ 3,881</u>

Note 4. Property, Plant and Equipment:

Property, plant and equipment at December 31, 2009 and 2008 were:

	<u>2009</u>	<u>2008</u>
	(in millions)	
Land and land improvements	\$ 492	\$ 462
Buildings and building equipment	4,231	3,913
Machinery and equipment	13,872	12,590
Construction in progress	828	850
	<u>19,423</u>	<u>17,815</u>
Accumulated depreciation	<u>(8,730)</u>	<u>(7,898)</u>
Property, plant and equipment, net	<u>\$ 10,693</u>	<u>\$ 9,917</u>

Refer to Note 5, *Goodwill and Intangible Assets*, for asset impairment charges taken against property, plant and equipment.

Note 5. Goodwill and Intangible Assets:

At December 31, 2009 and 2008, goodwill by reportable segment was:

	<u>2009</u>	<u>2008</u>
	(in millions)	
Kraft Foods North America:		
U.S. Beverages	\$ 1,290	\$ 1,290
U.S. Cheese	3,000	3,000
U.S. Convenient Meals	1,460	1,460
U.S. Grocery	3,046	3,046
U.S. Snacks	6,948	6,965
Canada & N.A. Foodservice	2,340	2,306
Kraft Foods Europe	6,756	5,893
Kraft Foods Developing Markets	<u>3,924</u>	<u>3,621</u>
Total goodwill	<u>\$ 28,764</u>	<u>\$ 27,581</u>

(1) This segment was formerly known as European Union.

As discussed in Note 16, *Segment Reporting*, we implemented changes to our operating structure in 2009. As a result of these changes, we aligned the reporting of our Central Europe operations into our Kraft Foods Developing Markets segment and moved \$1,534 million of goodwill from Kraft Foods Europe to Kraft Foods Developing Markets.

Intangible assets at December 31, 2009 and 2008 were:

	2009	2008
	(in millions)	
Non-amortizable intangible assets	\$ 13,262	\$ 12,758
Amortizable intangible assets	278	254
	<u>13,540</u>	<u>13,012</u>
Accumulated amortization	(111)	(86)
Intangible assets, net	<u>\$ 13,429</u>	<u>\$ 12,926</u>

Non-amortizable intangible assets consist principally of brand names purchased through our acquisitions of Nabisco Holdings Corp., LU Biscuit and the Spanish and Portuguese operations of United Biscuits. Amortizable intangible assets consist primarily of trademark licenses, customer-related intangibles and non-compete agreements.

The movements in goodwill and intangible assets were:

	2009		2008	
	Goodwill	Intangible Assets, at cost	Goodwill	Intangible Assets, at cost
	(in millions)			
Balance at January 1	\$ 27,581	\$ 13,012	\$ 31,193	\$ 12,262
Changes due to:				
Foreign currency	1,200	544	(1,062)	(516)
Acquisitions	-	-	(1,187)	1,356
Divestitures	(17)	-	(1,272)	(37)
Asset impairments	-	(12)	(35)	(53)
Other	-	(4)	(56)	-
Balance at December 31	<u>\$ 28,764</u>	<u>\$ 13,540</u>	<u>\$ 27,581</u>	<u>\$ 13,012</u>

Changes to goodwill and intangible assets during 2009 were:

- Divestitures - We reduced goodwill by \$17 million due to the divestiture of our *Balance* bar operations in the U.S.
- Asset impairments - During our 2009 review of goodwill and non-amortizable intangible assets, we recorded a \$12 million charge for the impairment of intangible assets in the Netherlands.

Changes to goodwill and intangible assets during 2008 were:

- Acquisitions - We decreased goodwill by \$1,187 million and increased intangible assets by \$1,356 million primarily due to refinements of preliminary allocations of the purchase price for our acquisition of LU Biscuit. The allocations were based upon appraisals that were finalized in the third quarter of 2008.
- Divestitures - We reduced goodwill by \$1,234 million due to the split-off of our *Post* cereals business, and we reduced goodwill by \$38 million and intangible assets by \$37 million due to the divestiture of an operation in Spain.
- Asset impairments - We recorded asset impairment charges of \$34 million to goodwill and \$1 million to intangible assets in connection with the divestiture of a Nordic and Baltic snacks operation. We also recorded asset impairment charges of \$1 million to goodwill and \$8 million to intangible assets in connection with the anticipated divestiture of a juice operation in Brazil. In addition, during our 2008 review of goodwill and non-amortizable intangible assets, we recorded a \$44 million charge for the impairment of intangible assets in the Netherlands, France and Puerto Rico.
- Other - We reduced goodwill by \$56 million primarily related to a reconciliation of our inventory of deferred tax items that also resulted in a write-down of our net deferred tax liabilities.

Amortization expense for intangible assets was \$26 million in 2009, \$23 million in 2008 and \$13 million in 2007. We currently estimate amortization expense for each of the next five years to be approximately \$15 million or less.

Annual Impairment Review & Asset Impairment Charges:

As a result of our 2009 annual review of goodwill and non-amortizable intangible assets, we recorded a \$12 million charge for the impairment of intangible assets in the Netherlands. In addition, during 2009, we recorded a \$9 million asset impairment charge to write off an investment in Norway. We recorded the aggregate charges within asset impairment and exit costs. *During our 2009 impairment review, we also noted that the following three reporting units were the most sensitive to near-term changes in our discounted cash flow assumptions:*

	<u>Percentage of Excess Fair Value over Carrying Value</u>		<u>October 1, 2009 Carrying Value of Goodwill (in millions)</u>
U.S. Salty Snacks	11%	\$	1,186
N.A. Foodservice	22%		861
Europe Biscuits	11%		2,555

During the fourth quarter of 2008, we completed the annual review of goodwill and non-amortizable intangible assets and recorded a \$44 million charge for the impairment of intangible assets in the Netherlands, France and Puerto Rico. During our 2008 impairment review, we determined that our Europe Biscuits reporting unit was the most sensitive to near-term changes in our discounted cash flow assumptions, as it contains a significant portion of the goodwill recorded upon our 2007 acquisition of LU Biscuit. In addition, in December 2008, we reached a preliminary agreement to divest a juice operation in Brazil and reached an agreement to sell a cheese plant in Australia. In anticipation of divesting the juice operation in Brazil, we recorded an asset impairment charge of \$13 million in the fourth quarter of 2008. The charge primarily included the write-off of associated intangible assets of \$8 million and property, plant and equipment of \$4 million. In anticipation of selling the cheese plant in Australia, we recorded an asset impairment charge of \$28 million to property, plant and equipment in the fourth quarter of 2008. Additionally, in 2008, we divested a Nordic and Baltic snacks operation and incurred an asset impairment charge of \$55 million in connection with the divestiture. This charge primarily included the write-off of associated goodwill of \$34 million and property, plant and equipment of \$16 million. We recorded the aggregate charges within asset impairment and exit costs.

In 2007, we divested our flavored water and juice brand assets and related trademarks. In recognition of the divestiture, we recorded a \$120 million asset impairment charge for these assets. The charge primarily included the write-off of associated intangible assets of \$70 million and property, plant and equipment of \$47 million and was recorded within asset impairment and exit costs.

Note 6. Restructuring Costs:

Cost Savings Initiatives

We incurred costs associated with our Cost Savings Initiatives of \$318 million in 2009. These charges were recorded in operations, primarily within the segment operating income of Kraft Foods Europe with the remainder spread across all other segments. The Kraft Foods Europe charges were largely a result of the reorganization of our European operations discussed below. Cost Savings Initiatives include exit, disposal and implementation costs. Even though implementation costs were directly attributable to exit and disposal costs, they did not qualify for special accounting treatment as exit or disposal activities. In 2009, our Cost Savings Initiatives primarily included severance charges for benefits received by terminated employees, associated benefit plan costs and other related activities.

2004-2008 Restructuring Program

In 2008, we completed our five-year restructuring program (the "Restructuring Program"). The Restructuring Program's objectives were to leverage our global scale, realign and lower our cost structure, and optimize capacity. As part of the Restructuring Program, we:

- incurred \$3.0 billion in pre-tax charges reflecting asset disposals, severance and implementation costs;
- announced the closure of 35 facilities and announced the elimination of approximately 18,600 positions; and
- will use cash to pay for \$2.0 billion of the \$3.0 billion in charges.

In 2009, we reversed \$85 million of previously accrued Restructuring Program charges. Those reversals related to the following:

- We sold a plant in Spain that we previously announced we would close under our Restructuring Program. Accordingly, we reversed \$35 million in Restructuring Program charges, primarily related to severance, and recorded a \$17 million loss on the divestiture of the plant in 2009. The reversal occurred in our Kraft Foods Europe segment.
- We also reversed \$50 million in Restructuring Program charges, primarily due to planned position eliminations that did not occur. These were primarily the result of redeployment and natural attrition. The majority of these reversals occurred in our Kraft Foods Europe segment, with the remainder spread across all other segments.

We incurred charges under the Restructuring Program of \$989 million in 2008 and \$459 million in 2007. Since the inception of the Restructuring Program, we have paid cash of \$1.7 billion of the \$2.0 billion in expected cash payments, including \$176 million paid in 2009. At December 31, 2009, we had an accrual of \$270 million, and we had eliminated approximately 17,300 positions under the Restructuring Program.

In 2008, we implemented a new operating structure built on three core elements: business units, shared services that leverage the scale of our global portfolio, and a streamlined corporate staff. Within the new structure, business units now have full P&L accountability and are staffed accordingly. This also ensures that we are putting our resources closer to where we make decisions that affect our consumers and customers. Our corporate and shared service functions streamlined their organizations to focus on core activities that can more efficiently support the goals of the business units. The intent was to simplify, streamline and increase accountability, with the ultimate goal of generating reliable growth for Kraft Foods. In total, we eliminated approximately 1,400 positions as we streamlined our headquarter functions.

The reorganization of our European operations to function on a pan-European centralized category management and value chain model was completed in 2009 for our Chocolate, Coffee and Cheese categories. Significant progress was made in 2009 related to the integration of our Europe Biscuits business, and we expect the integration to be completed by mid-2010. The European Principal Company ("EPC") will manage the European categories centrally and make decisions for all aspects of the value chain, except for sales and distribution. The European subsidiaries will execute sales and distribution locally, and the local production companies will act as toll manufacturers on behalf of the EPC. The EPC legal entity has been incorporated as Kraft Foods Europe GmbH in Zurich, Switzerland. As part of the reorganization, we incurred \$32 million of severance costs, \$25 million of implementation costs and \$56 million of other non-recurring costs during 2009; we incurred \$16 million of restructuring costs, \$39 million of implementation costs and \$11 million of other non-recurring costs during 2008; and we incurred \$21 million of restructuring costs, \$24 million of implementation costs and \$10 million of other non-recurring costs during 2007. Through 2009, we have incurred aggregate charges of \$241 million related to our Kraft Foods Europe Reorganization, and we expect to incur approximately \$40 million in additional charges in 2010 to complete the integration of the Europe Biscuits business. In 2009, these charges were recorded within cost of sales and marketing, administration and research costs. The 2008 and 2007 restructuring and implementation costs were included in the total Restructuring Program charges. Other non-recurring costs relating to our Kraft Foods Europe Reorganization were recorded as marketing, administration and research costs. Management believes the disclosure of implementation and other non-recurring charges provides readers of our financial statements greater transparency to the total costs of our Kraft Foods Europe Reorganization.

Restructuring Costs:

Under the Restructuring Program, we recorded asset impairment and exit costs of \$884 million during 2008 and \$332 million during 2007. Restructuring liability activity for the years ended December 31, 2009 and 2008 was:

	<u>Severance</u>	<u>Asset Write-downs</u>	<u>Other</u>	<u>Total</u>
	(in millions)			
Liability balance, January 1, 2008	\$ 154	\$ -	\$ 16	\$ 170
Charges	590	195	99	884
Cash (spent) / received	(255)	33	(71)	(293)
Charges against assets	(30)	(214)	2	(242)
Currency	(15)	(14)	(1)	(30)
Liability balance, December 31, 2008	444	-	45	489
Reversal of charges	(77)	(4)	(4)	(85)
Cash (spent) / received	(162)	1	(15)	(176)
Currency	40	3	(1)	42
Liability balance, December 31, 2009	<u>\$ 245</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 270</u>

Our 2009 activity was related to the aforementioned reversal of \$85 million and cash outflows on prior year Restructuring Program charges. Our prior year severance charges included the cost of benefits received by terminated employees. Severance charges against assets primarily related to incremental pension costs, which reduced prepaid pension assets. Asset impairment write-downs were caused by plant closings and related activity. Cash received on asset write-downs reflected the higher than anticipated net proceeds from the sales of assets previously written-down under the Restructuring Program. Other prior year costs related primarily to the renegotiation of supplier contract costs, workforce reductions associated with facility closings and the termination of leasing agreements.

Implementation Costs:

Implementation costs were directly attributable to exit and disposal costs; however, they did not qualify for special accounting treatment as exit or disposal activities. These costs primarily included the discontinuance of certain product lines, incremental expenses related to the closure of facilities and the reorganization of our European operations discussed above. Management believes the disclosure of implementation charges provides readers of our financial statements greater transparency to the total costs of our Restructuring Program.

Implementation costs associated with the Restructuring Program were:

	<u>2008</u>	<u>2007</u>
	(in millions)	
Cost of sales	\$ 38	\$ 67
Marketing, administration and research costs	67	60
Total implementation costs	<u>\$ 105</u>	<u>\$ 127</u>

Total Restructuring Program Costs:

We included the asset impairment, exit and implementation costs discussed above, for the years ended December 31, 2008 and 2007 in segment operating income as follows:

	For the Year Ended December 31, 2008		
	Restructuring Costs	Implementation Costs (in millions)	Total
Kraft Foods North America:			
U.S. Beverages	\$ 59	\$ 8	\$ 67
U.S. Cheese	31	7	38
U.S. Convenient Meals	31	7	38
U.S. Grocery	36	5	41
U.S. Snacks	72	9	81
Canada & N.A. Foodservice	100	10	110
Kraft Foods Europe	418	56	474
Kraft Foods Developing Markets	137	3	140
Total - continuing operations	884	105	989
Discontinued operations	-	-	-
Total	\$ 884	\$ 105	\$ 989

	For the Year Ended December 31, 2007		
	Restructuring Costs	Implementation Costs (in millions)	Total
Kraft North America:			
U.S. Beverages	\$ 12	\$ 7	\$ 19
U.S. Cheese	50	25	75
U.S. Convenient Meals	20	15	35
U.S. Grocery	25	7	32
U.S. Snacks	17	15	32
Canada & N.A. Foodservice	50	2	52
Kraft Foods Europe	108	44	152
Kraft Foods Developing Markets	38	12	50
Total - continuing operations	320	127	447
Discontinued operations	12	-	12
Total	\$ 332	\$ 127	\$ 459

Note 7. Debt and Borrowing Arrangements:**Short-Term Borrowings:**

At December 31, 2009 and 2008, our short-term borrowings and related average interest rates consisted of:

	2009		2008	
	Amount Outstanding (in millions)	Average Year-End Rate	Amount Outstanding (in millions)	Average Year-End Rate
Commercial paper	\$ 262	0.5%	\$ 606	2.6%
Bank loans	191	10.5%	291	13.0%
Total short-term borrowings	\$ 453		\$ 897	

The fair values of our short-term borrowings at December 31, 2009 and 2008, based upon current market interest rates, approximate the amounts disclosed above.

Borrowing Arrangements:

On November 30, 2009, we entered into a revolving credit agreement for a \$4.5 billion three-year senior unsecured revolving credit facility. The agreement replaced our former revolving credit agreement, which was terminated upon

the signing of the new agreement. We intend to use the revolving credit facility for general corporate purposes, including for working capital purposes, and to support our commercial paper issuances. No amounts have been drawn on the facility.

The revolving credit agreement requires us to maintain a minimum total shareholders' equity, excluding accumulated other comprehensive earnings / (losses), of at least \$23.0 billion. Upon the completion of our acquisition of Cadbury, this covenant will increase by 75% of any increase in our total shareholders' equity as a direct result of a) our issuance of certain types of equity securities to finance the acquisition; or b) our refinancing certain indebtedness. At December 31, 2009, our total shareholders' equity, excluding accumulated other comprehensive earnings / (losses), was \$29.8 billion. We expect to continue to meet this covenant. The revolving credit agreement also contains customary representations, covenants and events of default. However, the revolving credit facility has no other financial covenants, credit rating triggers or provisions that could require us to post collateral as security.

In addition to the above, some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to \$1.5 billion at December 31, 2009. Borrowings on these lines amounted to \$191 million at December 31, 2009 and \$291 million at December 31, 2008.

On November 9, 2009, we entered into an agreement for a £5.5 billion (approximately \$8.9 billion) 364-day senior unsecured bridge facility (the "Cadbury Bridge Facility"). On January 18, 2010, we amended the agreement to increase the Cadbury Bridge Facility to an aggregate of £7.1 billion. On February 11, 2010, after the issuance of \$9.5 billion of senior unsecured notes, we amended the agreement again to decrease the Cadbury Bridge Facility to an aggregate of £1.3 billion. We expect to use borrowings under the Cadbury Bridge Facility and proceeds from other financing sources to finance the Cadbury acquisition and to refinance certain indebtedness of Cadbury and its subsidiaries. With certain restrictions, borrowings under the Cadbury Bridge Facility are also available for our general corporate purposes.

The Cadbury Bridge Facility agreement includes the same minimum shareholders' equity requirement as in our \$4.5 billion revolving credit agreement. In addition, in the event that our long-term senior unsecured indebtedness is rated below investment grade by either Moody's or Standard & Poor's, the Cadbury Bridge Facility agreement requires us to maintain a net debt to adjusted EBITDA ratio of not more than 4.25 to 1.00. At December 31, 2009, we continued to maintain our investment grade debt rating, and our net debt to adjusted EBITDA ratio was 2.64. The Cadbury Bridge Facility agreement also contains customary representations, covenants and events of default and requires the prepayment of advances and / or the permanent reduction of commitments under the facility with the net cash proceeds received from certain disposals, debt issuances and equity capital markets transactions. No amounts were drawn on the facility at December 31, 2009.

Subject to market conditions, we expect to refinance or reduce advances under the *Cadbury Bridge Facility* from proceeds of alternative financing sources.

Long-Term Debt:

On February 8, 2010, we issued \$9.5 billion of senior unsecured notes at a weighted-average effective rate of 5.364% and are using the net proceeds (\$9,379 million) to finance the Cadbury acquisition and for general corporate purposes. The general terms of the \$9.5 billion notes are:

- \$3.75 billion total principal notes due February 10, 2020 at a fixed, annual interest rate of 5.375%. Interest is payable semiannually beginning August 10, 2010.
- \$3.00 billion total principal notes due February 9, 2040 at a fixed, annual interest rate of 6.500%. Interest is payable semiannually beginning August 9, 2010.
- \$1.75 billion total principal notes due February 9, 2016 at a fixed, annual interest rate of 4.125%. Interest is payable semiannually beginning August 9, 2010.
- \$1.00 billion total principal notes due May 8, 2013 at a fixed, annual interest rate of 2.625%. Interest is payable semiannually beginning November 8, 2010.

On December 19, 2008, we issued \$500 million of senior unsecured notes and used the net proceeds (\$498 million) for general corporate purposes, including the repayment of outstanding commercial paper. The general terms of the \$500 million notes are: \$500 million total principal notes due February 19, 2014 at a fixed, annual interest rate of 6.750%. Interest is payable semiannually, and began on February 19, 2009.

On May 22, 2008, we issued \$2.0 billion of senior unsecured notes and used the net proceeds (\$1,967 million) for general corporate purposes, including the repayment of borrowings under the 364-day bridge facility agreement we used to acquire *LU Biscuit* and other short-term borrowings. The general terms of the \$2.0 billion notes are:

- \$1,250 million total principal notes due August 23, 2018 at a fixed, annual interest rate of 6.125%. Interest is payable semiannually, and began February 23, 2009.
- \$750 million total principal notes due January 26, 2039 at a fixed, annual interest rate of 6.875%. Interest is payable semiannually, and began on January 26, 2009.

On March 20, 2008, we issued €2.85 billion (approximately \$4.5 billion) of senior unsecured notes and used the net proceeds (approximately \$4,470 million) to repay a portion of the 364-day bridge facility agreement we used to acquire *LU Biscuit*. The general terms of the €2.85 billion notes are:

- €2.0 billion (approximately \$3.2 billion) total principal notes due March 20, 2012 at a fixed, annual interest rate of 5.750%. Interest is payable annually, and began March 20, 2009.
- €850 million (approximately \$1.3 billion) total principal notes due March 20, 2015 at a fixed, annual interest rate of 6.250%. Interest is payable annually, and began March 20, 2009.

The notes from the above issuances include covenants that restrict our ability to incur debt secured by liens above a certain threshold. We are also required to offer to purchase these notes at a price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to the date of repurchase, if we experience both of the following:

- a "change of control" triggering event, and
- a downgrade of these notes below an investment grade rating by each of Moody's, Standard & Poor's and Fitch within a specified period.

We expect to continue to comply with our long-term debt covenants.

At December 31, 2009 and 2008, our long-term debt consisted of (interest rates were as of December 31, 2009):

	2009	2008
	(in millions)	
Notes, 0.77% to 7.55% (average effective rate 6.23%), due through 2039	\$ 14,395	\$ 15,130
Euro notes, 5.75% to 6.25% (average effective rate 5.98%), due through 2015	4,072	3,970
7% Debenture (effective rate 11.32%), \$200 million face amount, due 2011	-	182
Other foreign currency obligations	5	11
Capital leases and other	65	61
Total long-term debt	18,537	19,354
Less current portion of long term debt	(513)	(765)
Long-term debt	<u>\$ 18,024</u>	<u>\$ 18,589</u>

As of December 31, 2009, aggregate maturities of long-term debt were (in millions):

2010	\$ 513
2011	2,014
2012	4,373
2013	1,556
2014	506
Thereafter	9,640

On September 3, 2009, we redeemed our November 2011, 7% \$200 million debenture at par value. Upon redemption, we recorded a loss of \$14 million within interest and other expense, net which represented the write-off of the remaining discount. On November 12, 2009, we repaid \$750 million in notes, and on October 1, 2008, we repaid \$700 million in notes. These repayments were primarily financed from commercial paper issuances.

Fair Value:

The aggregate fair value of our long-term debt, based on quoted prices in active markets for identical liabilities, was \$19,769 million at December 31, 2009 and \$19,629 million at December 31, 2008.

The aggregate fair value of our third-party debt, based on market quotes, at December 31, 2009, was \$20,222 million as compared with the carrying value of \$18,990 million. The aggregate fair value of our third-party debt at December 31, 2008, was \$20,526 million as compared with the carrying value of \$20,251 million.

Interest and Other Expense:

Interest and other expense was:

	For the Years Ended December 31,		
	2009	2008	2007
		(in millions)	
Interest and other expense, net:			
Interest expense, external debt	\$ 1,260	\$ 1,272	\$ 739
Interest income, Altria and affiliates	-	-	(74)
Other income, net	(23)	(32)	(61)
Total interest and other expense, net	\$ 1,237	\$ 1,240	\$ 604

Note 8. Capital Stock:

Our 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. Shares of Class A common stock issued, repurchased and outstanding were:

	Shares Issued	Shares Repurchased	Shares Outstanding
Balance at January 1, 2007	555,000,000	(99,027,355)	455,972,645
Repurchase of shares	-	(111,516,043)	(111,516,043)
Exercise of stock options and issuance of other stock awards	-	9,321,018	9,321,018
Conversion of Class B common shares to Class A common shares	1,180,000,000	-	1,180,000,000
Balance at December 31, 2007	1,735,000,000	(201,222,380)	1,533,777,620
Repurchase of shares	-	(25,272,255)	(25,272,255)
Shares tendered (Note 2)	-	(46,119,899)	(46,119,899)
Exercise of stock options and issuance of other stock awards	-	6,915,974	6,915,974
Balance at December 31, 2008	1,735,000,000	(265,698,560)	1,469,301,440
Exercise of stock options and issuance of other stock awards	-	8,583,463	8,583,463
Balance at December 31, 2009	1,735,000,000	(257,115,097)	1,477,884,903

Effective on the date of our spin-off, Altria converted all of its Class B shares of Kraft Foods common stock into Class A shares of Kraft Foods common stock. Following our spin-off, we only have Class A common stock outstanding. There were no Class B common shares or preferred shares issued and outstanding at December 31, 2009, 2008 and 2007.

On August 4, 2008, we completed the split-off of the *Post* cereals business. In this transaction, approximately 46.1 million shares of Kraft Foods Common Stock were tendered for \$1,644 million.

At December 31, 2009, 146,863,809 shares of Common Stock were reserved for stock options and other stock awards.

In 2010, we expect to issue approximately 260 million additional shares of our Common Stock as part of the Cadbury acquisition.

Our Board of Directors authorized the following Common Stock repurchase programs. Our \$5.0 billion share repurchase authority expired on March 30, 2009. We did not repurchase any shares in 2009.

Share Repurchase Program Authorized by the Board of Directors	\$5.0 billion	\$2.0 billion
Authorized / completed period for repurchase	April 2007 - March 2009	March 2006 - March 2007
Aggregate cost of shares repurchased in 2008 (millions of shares)	\$777 million (25.3 shares)	
Aggregate cost of shares repurchased in 2007 (millions of shares)	\$3.5 billion (105.6 shares)	\$140 million (4.5 shares)
Aggregate cost of shares repurchased life-to-date under program (millions of shares)	\$4.3 billion (130.9 shares)	\$1.1 billion (34.7 shares)

In total, we repurchased 25.3 million shares for \$777 million in 2008 and 110.1 million shares for \$3,640 million in 2007 under these programs. We made these repurchases of our Common Stock in open market transactions.

In March 2007, we repurchased 1.4 million additional shares of our Common Stock from Altria at a cost of \$46.5 million. We paid \$32.085 per share, which was the average of the high and the low price of Kraft Foods Common Stock as reported on the NYSE on March 1, 2007. This repurchase was in accordance with our Altria spin-off agreement.

Note 9. Accumulated Other Comprehensive Earnings / (Losses):

The components of accumulated other comprehensive earnings / (losses) were:

	Currency Translation Adjustments	Pension and Other Benefits	Derivatives Accounted for as Hedges	Total
	(in millions)			
Balances at January 1, 2007	\$ (723)	\$ (2,342)	\$ (4)	\$ (3,069)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	672	(78)	-	594
Amortization of experience losses and prior service costs	-	154	-	154
Settlement losses	-	45	-	45
Net actuarial gain arising during period	-	410	-	410
Change in fair value of cash flow hedges	-	-	31	31
Total other comprehensive earnings	<u>1,234</u>			<u>1,234</u>
Balances at December 31, 2007	\$ (51)	\$ (1,811)	\$ 27	\$ (1,835)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	(2,348)	114	-	(2,234)
Amortization of experience losses and prior service costs	-	98	-	98
Settlement losses	-	48	-	48
Net actuarial loss arising during period	-	(2,021)	-	(2,021)
Change in fair value of cash flow hedges	-	-	(50)	(50)
Total other comprehensive losses	<u>(4,159)</u>			<u>(4,159)</u>
Balances at December 31, 2008	\$ (2,399)	\$ (3,572)	\$ (23)	\$ (5,994)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	1,893	(116)	-	1,777
Amortization of experience losses and prior service costs	-	126	-	126
Settlement losses	-	76	-	76
Net actuarial loss arising during period	-	(64)	-	(64)
Change in fair value of cash flow hedges	-	-	124	124
Total other comprehensive earnings	<u>2,039</u>			<u>2,039</u>
Balances at December 31, 2009	<u>\$ (506)</u>	<u>\$ (3,550)</u>	<u>\$ 101</u>	<u>\$ (3,955)</u>

Note 10. Stock Plans:

At our 2009 annual meeting, our shareholders approved the Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan (the "2005 Plan"). The 2005 Plan includes, among other provisions, a limit on the number of shares that may be granted under the plan, vesting restrictions and a prohibition on stock option repricing. Under the 2005 Plan, we may grant to eligible employees awards of stock options, stock appreciation rights, restricted stock, restricted and deferred stock units, and other awards based on our Common Stock, as well as performance-based annual and long-term incentive awards. We are authorized to issue a maximum of 168.0 million shares of our Common Stock under the 2005 Plan. As of the effective date of the amendment, there were 92.1 million shares available to be granted under the 2005 Plan, of which no more than 27.5 million shares may be awarded as restricted or deferred stock. In addition, under the Kraft Foods 2006 Stock Compensation Plan for Non-Employee Directors (the "2006 Directors Plan"), we may grant up to 500,000 shares of Common Stock to members of the Board of Directors who are not our full-time employees. At December 31, 2009, there were

93,740,465 shares available to be granted under the 2005 Plan and 372,097 shares available to be granted under the 2006 Directors Plan. Restricted or deferred shares available for grant under the 2005 Plan at December 31, 2009, were 27,984,072.

In 2008, we changed our annual and long-term incentive compensation programs to further align them with shareholder returns. Under the annual equity program, we now grant equity in the form of both restricted or deferred stock and stock options. The restricted or deferred stock continues to vest 100% after three years, and the stock options vest in three annual installments beginning on the first anniversary of the grant date. Additionally, we changed our long-term incentive plan from a cash-based program to a share-based program. These shares vest based on varying performance, market and service conditions.

All stock awards are issued to employees from treasury stock. We have no specific policy to repurchase Common Stock to mitigate the dilutive impact of options; however, we have historically made adequate discretionary purchases, based on cash availability, market trends and other factors, to satisfy stock option exercise activity.

Stock Options:

Stock options are granted at an exercise price equal to the market value of the underlying stock on the grant date, generally become exercisable in three annual installments beginning on the first anniversary of the grant date and have a maximum term of ten years. Prior to 2008, we had not granted stock options through a broad-based program since 2002.

We account for our employee stock options under the fair value method of accounting using a modified Black-Scholes methodology to measure stock option expense at the date of grant. The fair value of the stock options at the date of grant is amortized to expense over the vesting period. We recorded compensation expense related to stock options of \$31 million in 2009 and \$18 million in 2008. The deferred tax benefit recorded related to this compensation expense was \$11 million in 2009 and \$6 million in 2008. The unamortized compensation expense related to our stock options was \$48 million at December 31, 2009 and is expected to be recognized over a weighted-average period of two years. Our weighted-average Black-Scholes fair value assumptions were as follows:

	<u>Risk-Free Interest Rate</u>	<u>Expected Life</u>	<u>Expected Volatility</u>	<u>Expected Dividend Yield</u>	<u>Fair Value at Grant Date</u>
2009	2.46%	6 years	21.36%	4.90%	\$ 2.68
2008	3.08%	6 years	21.04%	3.66%	\$ 4.49

The risk-free interest rate represents the rate on zero-coupon U.S. government issues with a remaining term equal to the expected life of the options. The expected life is the period over which our employees are expected to hold their options. It is based on the simplified method from the SEC's safe harbor guidelines. Volatility reflects historical movements in our stock price for a period commensurate with the expected life of the options. Dividend yield is estimated over the expected life of the options based on our stated dividend policy.

Stock option activity for the year ended December 31, 2009 was:

	<u>Shares Subject to Option</u>	<u>Weighted- Average Exercise Price</u>	<u>Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Balance at January 1, 2009	38,485,559	\$ 24.74		
Options granted	16,310,380	23.64		
Options exercised	(5,891,471)	14.08		
Options cancelled	(2,176,771)	27.76		
Balance at December 31, 2009	<u>46,727,697</u>	25.56	6 years	\$ 149 million
Exercisable at December 31, 2009	<u>22,848,549</u>	25.41	2 years	\$ 91 million

In February 2009, as part of our annual equity program, we granted 16.3 million stock options to eligible employees at an exercise price of \$23.64.

In February 2008, as part of our annual equity program, we granted 13.5 million stock options to eligible employees at an exercise price of \$29.49. We also granted 0.1 million off-cycle stock options during 2008 at an exercise price of \$30.78.

On May 3, 2007, our Board of Directors approved a stock option grant to our CEO to recognize her election as our Chairman. She received 300,000 stock options, which vest under varying market and service conditions and expire ten years after the grant date. The grant had an insignificant impact on earnings in 2007.

The total intrinsic value of options exercised was \$72 million in 2009, \$76 million in 2008 and \$90 million in 2007. Cash received from options exercised was \$79 million in 2009, \$80 million in 2008 and \$124 million in 2007. The actual tax benefit realized for the tax deductions from the option exercises totaled \$52 million in 2009, \$44 million in 2008 and \$35 million in 2007.

Restricted and Deferred Stock:

We may grant shares of restricted or deferred stock to eligible employees, giving them in most instances all of the rights of shareholders, except that they may not sell, assign, pledge or otherwise encumber the shares. Shares of restricted and deferred stock are subject to forfeiture if certain employment conditions are not met. Restricted and deferred stock generally vest on the third anniversary of the grant date.

Shares granted in connection with our long-term incentive plan vest based on varying performance, market and service conditions. The unvested shares have no voting rights and do not pay dividends.

The fair value of the restricted and deferred shares at the date of grant is amortized to earnings over the restriction period. We recorded compensation expense related to restricted and deferred stock of \$133 million in 2009, \$160 million in 2008 and \$136 million in 2007. The deferred tax benefit recorded related to this compensation expense was \$44 million in 2009, \$53 million in 2008 and \$47 million in 2007. The unamortized compensation expense related to our restricted and deferred stock was \$149 million at December 31, 2009 and is expected to be recognized over a weighted-average period of two years.

Our restricted and deferred stock activity for the year ended December 31, 2009 was:

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value Per Share</u>
Balance at January 1, 2009	15,250,805	\$ 31.46
Granted	5,778,201	24.68
Vested	(6,071,661)	30.12
Forfeited	<u>(1,102,392)</u>	30.57
Balance at December 31, 2009	<u>13,854,953</u>	29.30

In January 2009, we granted 1.5 million shares of stock in connection with our long-term incentive plan, and the market value per share was \$27.00 on the date of grant. In February 2009, as part of our annual equity program, we issued 4.1 million shares of restricted and deferred stock to eligible employees, and the market value per restricted or deferred share was \$23.64 on the date of grant. We also issued 0.2 million off-cycle shares of restricted and deferred stock during 2009, and the weighted-average market value per restricted or deferred share was \$25.55 on the date of grant.

In January 2008, we granted 1.4 million shares of stock in connection with our long-term incentive plan, and the market value per share was \$32.26 on the date of grant. In February 2008, as part of our annual equity program, we issued 3.4 million shares of restricted and deferred stock to eligible employees, and the market value per restricted or deferred share was \$29.49 on the date of grant. We also issued 0.2 million off-cycle shares of restricted and deferred stock during 2008, and the weighted-average market value per restricted or deferred share was \$30.38 on the date of grant. The total number of restricted and deferred shares issued in 2008 was 5.0 million.

In January 2007, we issued 5.2 million shares of restricted and deferred stock to eligible employees as part of our annual equity program, and the market value per restricted or deferred share was \$34.655 on the date of grant.

Additionally, we issued 1.0 million off-cycle shares of restricted and deferred stock during 2007, and the weighted-average market value per restricted or deferred share was \$34.085 on the date of grant. The total number of restricted and deferred shares issued in 2007 was 9.2 million, including those issued as a result of our spin-off from Altria (discussed below).

The weighted-average grant date fair value of restricted and deferred stock granted was \$143 million, or \$24.68 per restricted or deferred share, in 2009, \$151 million, or \$30.38 per restricted or deferred share, in 2008 and \$310 million, or \$33.63 per restricted or deferred share, in 2007. The vesting date fair value of restricted and deferred stock was \$153 million in 2009, \$196 million in 2008, and \$153 million in 2007.

Bifurcation of Stock Awards Upon Spin-Off from Altria:

Effective on the date of our spin-off, Altria stock awards were modified through the issuance of Kraft Foods stock awards, and accordingly, the Altria stock awards were split into two instruments. Holders of Altria stock options received: 1) a new Kraft Foods option to acquire shares of Kraft Foods Common Stock; and 2) an adjusted Altria stock option for the same number of shares of Altria common stock previously held, but with a proportionally reduced exercise price. For each employee stock option outstanding, the aggregate intrinsic value immediately after our spin-off from Altria was not greater than the aggregate intrinsic value immediately prior to it. Holders of Altria restricted stock or stock rights awarded before January 31, 2007 retained their existing awards and received restricted stock or stock rights in Kraft Foods Common Stock. Recipients of Altria restricted stock or stock rights awarded on or after January 31, 2007 did not receive Kraft Foods restricted stock or stock rights because Altria had announced the spin-off at that time. We reimbursed Altria \$179 million for net settlement of the employee stock awards. We determined the fair value of the stock options using the Black-Scholes option valuation model, and adjusted the fair value of the restricted stock and stock rights by the value of projected forfeitures.

Based upon the number of Altria stock awards outstanding upon our spin-off, we granted stock options for 24.2 million shares of Kraft Foods Common Stock at a weighted-average price of \$15.75. The options expire between 2007 and 2012. In addition, we issued 3.0 million shares of restricted stock and stock rights. The market value per restricted share or right was \$31.66 on the date of grant. Restrictions on the majority of these restricted shares and stock rights lapsed in the first quarter of either 2008 or 2009.

Note 11. Benefit Plans:**Pension Plans***Obligations and Funded Status:*

The projected benefit obligations, plan assets and funded status of our pension plans at December 31, 2009 and 2008 were:

	U.S. Plans		Non-U.S. Plans	
	2009	2008	2009	2008
	(in millions)			
Benefit obligation at January 1	\$ 6,133	\$ 5,952	\$ 3,211	\$ 4,275
Service cost	152	149	67	107
Interest cost	369	371	215	257
Benefits paid	(310)	(314)	(225)	(269)
Settlements paid	(187)	(331)	(14)	(16)
Curtailement gain	(168)	-	-	-
Actuarial (gains) / losses	203	306	619	(542)
Currency	-	-	510	(710)
Other	3	-	18	109
Benefit obligation at December 31	<u>6,195</u>	<u>6,133</u>	<u>4,401</u>	<u>3,211</u>
Fair value of plan assets at January 1	4,386	7,006	2,618	4,041
Actual return on plan assets	1,180	(2,028)	400	(761)
Contributions	427	53	209	180
Benefits paid	(310)	(314)	(225)	(269)
Settlements paid	(187)	(331)	(14)	(16)
Currency	-	-	414	(615)
Other	-	-	(5)	58
Fair value of plan assets at December 31	<u>5,496</u>	<u>4,386</u>	<u>3,397</u>	<u>2,618</u>
Net pension liability recognized at December 31	<u>\$ (699)</u>	<u>\$ (1,747)</u>	<u>\$ (1,004)</u>	<u>\$ (593)</u>

Our projected benefit obligation decreased \$168 million in 2009 due to the freeze of certain of our U.S. pension plans.

The accumulated benefit obligation, which represents benefits earned to the measurement date, was \$5,673 million at December 31, 2009 and \$5,464 million at December 31, 2008 for the U.S. pension plans. The accumulated benefit obligation for the non-U.S. pension plans was \$4,115 million at December 31, 2009 and \$3,024 million at December 31, 2008.

The combined U.S. and non-U.S. pension plans resulted in a net pension liability of \$1,703 million at December 31, 2009 and \$2,340 million at December 31, 2008. We recognized these amounts in our consolidated balance sheets at December 31, 2009 and 2008 as follows:

	2009	2008
	(in millions)	
Prepaid pension assets	\$ 115	\$ 56
Other accrued liabilities	(53)	(29)
Accrued pension costs	<u>(1,765)</u>	<u>(2,367)</u>
	<u>\$ (1,703)</u>	<u>\$ (2,340)</u>

Certain of our U.S. and non-U.S. plans are under funded and have accumulated benefit obligations in excess of plan assets. For these plans, the projected benefit obligations, accumulated benefit obligations and the fair value of plan assets at December 31, 2009 and 2008 were:

	U.S. Plans		Non-U.S. Plans	
	2009	2008	2009	2008
	(in millions)			
Projected benefit obligation	\$ 4,666	\$ 6,133	\$ 3,703	\$ 1,740
Accumulated benefit obligation	4,166	5,464	3,478	1,664
Fair value of plan assets	3,932	4,386	2,629	1,144

We used the following weighted-average assumptions to determine our benefit obligations under the pension plans at December 31:

	U.S. Plans		Non-U.S. Plans	
	2009	2008	2009	2008
Discount rate	5.93%	6.10%	5.21%	6.41%
Expected rate of return on plan assets	8.00%	8.00%	7.26%	7.25%
Rate of compensation increase	4.00%	4.00%	3.08%	3.09%

Year-end discount rates for our U.S. and Canadian plans were developed from a model portfolio of high quality, fixed-income debt instruments with durations that match the expected future cash flows of the benefit obligations. Year-end discount rates for our non-U.S. plans (other than Canadian plans) were developed from local bond indices that match local benefit obligations as closely as possible. Changes in our discount rates were primarily the result of changes in bond yields year-over-year. We determine our expected rate of return on plan assets from the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

Components of Net Pension Cost:

Net pension cost consisted of the following for the years ended December 31, 2009, 2008 and 2007:

	U.S. Plans			Non-U.S. Plans		
	2009	2008	2007	2009	2008	2007
	(in millions)					
Service cost	\$ 152	\$ 149	\$ 159	\$ 67	\$ 91	\$ 101
Interest cost	369	371	365	215	222	194
Expected return on plan assets	(486)	(526)	(523)	(242)	(285)	(251)
Amortization:						
Net loss from experience differences	160	85	138	23	31	66
Prior service cost	6	7	5	6	7	9
Other expenses	112	74	68	8	16	4
Net pension cost	\$ 313	\$ 160	\$ 212	\$ 77	\$ 82	\$ 123

The following costs are included within other expenses above. Severance payments related to our Cost Savings Initiatives and Restructuring Program, and retired employees who elected lump-sum payments resulted in settlement losses for our U.S. plans of \$107 million in 2009, \$74 million in 2008 and \$68 million in 2007. In addition, we incurred a \$5 million curtailment charge in 2009 related to the freeze of certain of our U.S. pension plans. Non-U.S. plant closures and early retirement benefits resulted in curtailment and settlement losses of \$8 million in 2009, \$16 million in 2008 and \$4 million in 2007.

For the U.S. plans, we determine the expected return on plan assets component of net periodic benefit cost using a calculated market return value that recognizes the cost over a four year period. For our non-U.S. plans, we utilize a similar approach with varying cost recognition periods for some plans, and with others, we determine the expected return on plan assets based on asset fair values as of the measurement date.

As of December 31, 2009, for the combined U.S. and non-U.S. pension plans, we expected to amortize from accumulated other comprehensive earnings / (losses) into net periodic pension cost during 2010:

- an estimated \$244 million of net loss from experience differences; and
- an estimated \$12 million of prior service cost.

We used the following weighted-average assumptions to determine our net pension cost for the years ended December 31:

	U.S. Plans			Non-U.S. Plans		
	2009	2008	2007	2009	2008	2007
Discount rate	6.10%	6.30%	5.90%	6.41%	5.44%	4.67%
Expected rate of return on plan assets	8.00%	8.00%	8.00%	7.25%	7.43%	7.53%
Rate of compensation increase	4.00%	4.00%	4.00%	3.09%	3.13%	3.00%

Plan Assets:

The fair value of pension plan assets at December 31, 2009 was determined using:

Asset Category	Total Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
U.S. equity securities	\$ 289	\$ 289	\$ -	\$ -
Non-U.S. equity securities	1,991	1,988	2	1
Pooled funds - equity securities	<u>3,014</u>	-	<u>3,014</u>	-
Total equity securities	5,294	2,277	3,016	1
Government bonds	1,037	931	106	-
Pooled funds - fixed income securities	945	-	945	-
Corporate bonds and other fixed income securities	<u>988</u>	<u>54</u>	<u>932</u>	<u>2</u>
Total fixed income securities	2,970	985	1,983	2
Real estate	131	22	109	-
Other	<u>326</u>	<u>322</u>	<u>2</u>	<u>2</u>
Total	<u>\$ 8,721</u>	<u>\$ 3,606</u>	<u>\$ 5,110</u>	<u>\$ 5</u>

We excluded \$172 million of plan assets from the above table related to certain insurance contracts as they are reported at contract value, in accordance with authoritative guidance. U.S. and non-U.S. equity securities and government bonds are primarily classified as level one and are valued using quoted prices in active markets. Corporate bonds and other fixed income securities are primarily classified as level two and are valued using independent observable market inputs, such as matrix pricing, yield curves and indices. Pooled funds, including assets in real estate pooled funds, are primarily classified as level two and are valued using net asset values of participation units held in common collective trusts, as reported by the managers of the trusts and as supported by the unit prices of actual purchase and sale transactions. Level three assets are valued using unobservable inputs that reflect the plans' own assumptions about the assumptions that market participants would use in pricing the assets, based on the best information available, such as investment manager pricing for limited partnerships using company financial statements, relevant valuation multiples and discounted cash flow analyses.

The percentage of fair value of pension plan assets at December 31, 2009 and 2008 was:

<u>Asset Category</u>	<u>U.S. Plans</u>		<u>Non-U.S. Plans</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Equity securities	68%	65%	50%	45%
Debt securities	28%	35%	43%	45%
Real estate	-	-	4%	4%
Other	4%	-	3%	6%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Our investment strategy is based on our expectation that equity securities will outperform debt securities over the long term. Accordingly, the composition of our U.S. plan assets is broadly characterized as a 70% / 30% allocation between equity and debt securities. The strategy uses indexed U.S. equity securities, actively managed international equity securities and actively managed U.S. and international investment grade debt securities (which constitute 90% or more of debt securities) with lesser allocations to high yield debt securities. The other asset balance of our U.S. plans at December 31, 2009 primarily related to a \$200 million voluntary cash contribution we made on December 31, 2009.

For the plans outside the U.S., the investment strategy is subject to local regulations and the asset / liability profiles of the plans in each individual country. These specific circumstances result in a level of equity exposure that is typically less than the U.S. plans. In aggregate, the asset allocation targets of our non-U.S. plans are broadly characterized as a mix of 50% equity securities, 40% debt securities and 10% real estate / other.

We attempt to maintain our target asset allocation by rebalancing between equity and debt asset classes as we make contributions and monthly benefit payments. We intend to rebalance our plan portfolios by mid-2010 by making contributions and monthly benefit payments.

We make contributions to our U.S. and non-U.S. pension plans, primarily, to the extent that they are tax deductible and do not generate an excise tax liability. Based on current tax law, we plan to make contributions of approximately \$40 million to our U.S. plans and approximately \$200 million to our non-U.S. plans in 2010. Our estimated pension contributions do not include anticipated contributions for our newly acquired Cadbury business. We will update this figure in future filings to reflect these anticipated contributions. However, our actual contributions may be different due to many factors, including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates.

Future Benefit Payments:

The estimated future benefit payments from our pension plans at December 31, 2009 were:

	<u>U.S. Plans</u>	<u>Non-U.S. Plans</u>
	<u>(in millions)</u>	
2010	\$ 473	\$ 246
2011	453	246
2012	443	253
2013	450	256
2014	440	260
2015-2019	2,557	1,419

Other Costs:

We sponsor and contribute to employee savings plans. These plans cover eligible salaried, non-union and union employees. Our 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 \$94 million in 2009, \$93 million in 2008 and \$83 million in 2007.

We also made contributions to multiemployer pension plans totaling \$29 million in 2009, \$27 million in 2008 and \$26 million in 2007.

Postretirement Benefit Plans

Obligations:

Our postretirement health care plans are not funded. The changes in the accrued benefit obligation and net amount accrued at December 31, 2009 and 2008 were:

	<u>2009</u>	<u>2008</u>
	(in millions)	
Accrued postretirement benefit obligation at January 1	\$ 2,899	\$ 3,063
Service cost	35	44
Interest cost	174	183
Benefits paid	(210)	(206)
Plan amendments	-	(84)
Currency	25	(30)
Assumption changes	157	(28)
Actuarial gains	(48)	(43)
Accrued postretirement health care costs at December 31	<u>\$ 3,032</u>	<u>\$ 2,899</u>

The current portion of our accrued postretirement health care costs of \$216 million at December 31, 2009 and \$221 million at December 31, 2008 was included in other accrued liabilities.

We used the following weighted-average assumptions to determine our postretirement benefit obligations at December 31:

	<u>U.S. Plans</u>		<u>Canadian Plans</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Discount rate	5.70%	6.10%	5.25%	7.60%
Health care cost trend rate assumed for next year	7.00%	7.00%	9.00%	9.00%
Ultimate trend rate	5.00%	5.00%	6.00%	6.00%
Year that the rate reaches the ultimate trend rate	2014	2014	2016	2015

Year-end discount rates for our U.S. and Canadian plans were developed from a model portfolio of high quality, fixed-income debt instruments with durations that match the expected future cash flows of the benefit obligations. Changes in our U.S. and Canadian discount rates were primarily the result of changes in bond yields year-over-year. Our expected health care cost trend rate is based on historical costs.

Assumed health care cost trend rates have a significant impact 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, 2009:

	<u>One-Percentage-Point</u>	
	<u>Increase</u>	<u>Decrease</u>
Effect on total of service and interest cost	12.3%	(10.2%)
Effect on postretirement benefit obligation	9.8%	(8.3%)

Components of Net Postretirement Health Care Costs:

Net postretirement health care costs consisted of the following for the years ended December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u> (in millions)	<u>2007</u>
Service cost	\$ 35	\$ 44	\$ 46
Interest cost	174	183	177
Amortization:			
Net loss from experience differences	44	55	58
Prior service credit	(32)	(28)	(26)
Other expense	-	-	5
Net postretirement health care costs	<u>\$ 221</u>	<u>\$ 254</u>	<u>\$ 260</u>

As of December 31, 2009, we expected to amortize from accumulated other comprehensive earnings / (losses) into net postretirement health care costs during 2010:

- an estimated \$50 million of net loss from experience differences; and
- an estimated \$31 million of prior service credit.

We used the following weighted-average assumptions to determine our net postretirement cost for the years ended December 31:

	<u>U.S. Plans</u>			<u>Canadian Plans</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Discount rate	6.10%	6.10%	5.90%	7.60%	5.80%	5.00%
Health care cost trend rate	7.00%	7.50%	8.00%	9.00%	9.00%	8.50%

Future Benefit Payments:

Our estimated future benefit payments for our postretirement health care plans at December 31, 2009 were:

	<u>U.S. Plans</u>	<u>Canadian Plans</u>
	(in millions)	
2010	\$ 206	\$ 10
2011	209	10
2012	208	10
2013	208	11
2014	207	11
2015-2019	1,026	62

Other Costs:

We made contributions to multiemployer medical plans totaling \$35 million in 2009, \$33 million in 2008 and \$33 million in 2007.

Postemployment Benefit Plans

Obligations:

Our postemployment plans are not funded. The changes in the benefit obligations of the plans and net amount accrued at December 31, 2009 and 2008 were:

	<u>2009</u>	<u>2008</u>
	(in millions)	
Accrued benefit obligation at January 1	\$ 560	\$ 254
Service cost	8	6
Interest cost	8	7
Severance	125	560
Benefits paid	(215)	(280)
Assumption changes	26	12
Actuarial gains	(7)	(2)
Currency	41	(15)
Other	-	18
Accrued postemployment costs at December 31	<u>\$ 546</u>	<u>\$ 560</u>

The accrued benefit obligation was determined using a weighted-average discount rate of 6.5% in 2009 and 7.1% in 2008, an assumed ultimate annual turnover rate of 0.5% in 2009 and 2008, assumed compensation cost increases of 4.0% in 2009 and 2008, 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.

Components of Net Postemployment Costs:

Net postemployment costs consisted of the following for the years ended December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(in millions)		
Service cost	\$ 8	\$ 6	\$ 4
Interest cost	8	7	6
Amortization of net (gains) / losses	2	(2)	(2)
Other expense	125	560	132
Net postemployment costs	<u>\$ 143</u>	<u>\$ 571</u>	<u>\$ 140</u>

The following costs are included within other expense above:

- we incurred severance charges of \$32 million related to our Kraft Foods Europe Reorganization and \$170 million related to other Cost Savings Initiatives in 2009;
- we reversed \$77 million in severance charges in 2009 related to our Restructuring Program, as discussed in Note 6, *Restructuring Costs*; and
- we incurred severance charges of \$560 million in 2008 and \$132 million in 2007 related to workforce reduction initiatives announced under the Restructuring Program.

As of December 31, 2009, the estimated net loss for the postemployment benefit plans that we expected to amortize from accumulated other comprehensive earnings / (losses) into net postemployment costs during 2010 was insignificant.

Note 12. Financial Instruments:*Fair Value of Derivative Instruments:*

The fair values of derivative instruments recorded in the consolidated balance sheet as of December 31, 2009 were:

December 31, 2009		Asset Derivatives	Liability Derivatives
		(in millions)	
Derivatives designated as hedging instruments:			
Foreign exchange contracts	\$	8	\$ 158
Commodity contracts		25	14
Interest rate contracts		153	-
	\$	<u>186</u>	<u>\$ 172</u>
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	\$	2	\$ -
Commodity contracts		71	62
	\$	<u>73</u>	<u>\$ 62</u>
Total fair value	\$	<u>259</u>	<u>\$ 234</u>

We include the fair value of our asset derivatives within other current assets and the fair value of our liability derivatives within other current liabilities.

The fair values (asset / (liability)) of our derivative instruments at December 31, 2009 were determined using:

Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in millions)			
Foreign exchange contracts	\$ (148)	\$ -	\$ (148)
Commodity contracts	20	11	8
Interest rate contracts	153	-	153
Total derivatives	<u>\$ 25</u>	<u>\$ 11</u>	<u>\$ 13</u>

Cash Flow Hedges:

Cash flow hedges affected accumulated other comprehensive earnings / (losses), net of income taxes, as follows:

	2009	2008 (in millions)	2007
Accumulated gain / (loss) at beginning of period	\$ (23)	\$ 27	\$ (4)
Transfer of realized (gains) / losses in fair value to earnings	111	26	(10)
Unrealized gain / (loss) in fair value	<u>13</u>	<u>(76)</u>	<u>41</u>
Accumulated gain / (loss) at December 31	<u>\$ 101</u>	<u>\$ (23)</u>	<u>\$ 27</u>

The effect of cash flow hedges for the year ended December 31, 2009 was:

	Gain / (Loss) Recognized in OCI	(Gain) / Loss Reclassified from AOCI into Earnings
	(in millions)	
Foreign exchange contracts - intercompany loans	\$ (12)	\$ -
Foreign exchange contracts - forecasted transactions	(40)	(27)
Commodity contracts	(27)	138
Interest rate contracts	92	-
Total	\$ 13	\$ 111

	Gain / (Loss) on Ineffectiveness Recognized in Earnings	Gain / (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
	(in millions)	
Foreign exchange contracts - intercompany loans	\$ -	\$ -
Foreign exchange contracts - forecasted transactions	-	-
Commodity contracts	12	1
Interest rate contracts	-	-
Total	\$ 12	\$ 1

We record (i) the gain or loss reclassified from accumulated other comprehensive earnings / (losses) into earnings, (ii) the gain or loss on ineffectiveness, and (iii) the gain or loss on the amount excluded from effectiveness testing in:

- cost of sales for commodity contracts;
- cost of sales or marketing, administration and research costs for foreign exchange contracts related to forecasted transactions, depending on the type of transaction; and
- interest and other expense, net for interest rate contracts and foreign exchange contracts related to intercompany loans.

As of December 31, 2009, we expected to transfer unrealized losses of \$2 million (net of taxes) for commodity cash flow hedges and unrealized gains of \$5 million (net of taxes) for foreign currency cash flow hedges to earnings during the next 12 months.

Hedge Coverage:

As of December 31, 2009, we had hedged forecasted transactions for the following durations:

- commodity transactions for periods not exceeding the next 19 months;
- interest rate transactions for periods not exceeding the next 33 years and 1 month; and
- foreign currency transactions for periods not exceeding the next 24 months, and excluding intercompany loans, we had hedged forecasted foreign currency transactions for periods not exceeding the next 12 months.

Fair Value Hedges:

The effect of fair value hedges for the year ended December 31, 2009 was:

	<u>Gain / (Loss) Recognized in Income on Derivatives</u>		<u>Gain / (Loss) Recognized in Income on Borrowings</u>
	(in millions)		
Interest rate contracts	\$	7	\$ (7)

We include the gain or loss on hedged long-term debt and the offsetting loss or gain on the related interest rate swap in interest and other expense, net.

Hedges of Net Investments in Foreign Operations:

The effect of hedges of net investments in foreign operations for the year ended December 31, 2009 was:

	<u>Gain / (Loss) Recognized in OCI</u>		<u>Location of Gain / (Loss) Recorded in AOCI</u>
	(in millions)		
			Currency Translation
Euro notes	\$	(65)	Adjustment

Our currency translation adjustment included gains of \$83 million for the year ended December 31, 2008 and \$28 million for the year ended December 31, 2007 related to the euro denominated borrowings.

Economic Hedges:

The effect of economic hedges, derivatives that are not designated as hedging instruments, for the year ended December 31, 2009 was:

	<u>Gain / (Loss) Recognized in Earnings</u>		<u>Location of Gain / (Loss) Recognized in Earnings</u>
	(in millions)		
Foreign exchange contracts - intercompany loans and forecasted interest payments	\$	(10)	Interest expense
Foreign exchange contracts - forecasted transactions		(10)	Cost of sales
Commodity contracts		<u>37</u>	Cost of sales
Total	\$	<u>17</u>	

For commodity contracts not designated as hedging instruments, the impact to earnings was insignificant in 2008, and we recognized net gains of \$56 million in 2007. For foreign exchange contracts not designated as hedging instruments, we recognized net losses of \$50 million in 2008 and \$231 million in 2007. The majority of these losses were attributable to hedges of intercompany loans and were economically offset with foreign currency gains from the intercompany receivable.

Volume:

As of December 31, 2009, we had the following outstanding hedges:

	<u>Notional Amount</u> (in millions)
Foreign exchange contracts - intercompany loans	\$ 1,376
Foreign exchange contracts - forecasted transactions	631
Commodity contracts	1,832
Interest rate contracts	2,350
Net investment hedge - euro notes	4,081

Note 13. Commitments and Contingencies:

Legal Proceedings:

We are involved, from time to time, in legal proceedings, claims, and governmental inspections or investigations, arising in the ordinary course of our business. While we cannot predict with certainty the results of these matters, we do not expect that the ultimate costs to resolve these matters will have a material effect on our financial results.

In 2009, we recorded an additional \$50 million of charges for legal matters related to certain of our European operations. See Part I Item 3. Legal Proceedings for a description of these matters. In 2008, we recorded charges of \$72 million for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations.

Third-Party Guarantees:

We have third-party guarantees primarily covering the long-term obligations of our vendors. As part of those transactions, we guarantee that third parties will make contractual payments or achieve performance measures. At December 31, 2009, the carrying amount of our third-party guarantees on our consolidated balance sheet and the maximum potential payment under these guarantees was \$29 million. Substantially all of these guarantees expire at various times through 2018.

Leases:

Rental expenses were \$505 million in 2009, \$505 million in 2008 and \$433 million in 2007. As of December 31, 2009, minimum rental commitments under non-cancelable operating leases in effect at year-end were (in millions):

2010	\$ 306
2011	243
2012	185
2013	103
2014	76
Thereafter	212

94

Note 14. Income Taxes:

Earnings from continuing operations before income taxes and the provision for income taxes consisted of the following for the years ended December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u> (in millions)	<u>2007</u>
Earnings from continuing operations before income taxes:			
United States	\$ 2,323	\$ 1,341	\$ 2,325
Outside United States	1,964	1,262	1,247
Total	<u>\$ 4,287</u>	<u>\$ 2,603</u>	<u>\$ 3,572</u>
Provision for income taxes:			
United States federal:			
Current	\$ 425	\$ 392	\$ 649
Deferred	108	(13)	(270)
	<u>533</u>	<u>379</u>	<u>379</u>
State and local:			
Current	95	62	175
Deferred	(39)	(21)	(69)
	<u>56</u>	<u>41</u>	<u>106</u>
Total United States	<u>589</u>	<u>420</u>	<u>485</u>
Outside United States:			
Current	701	507	649
Deferred	(31)	(172)	(54)
Total outside United States	<u>670</u>	<u>335</u>	<u>595</u>
Total provision for income taxes	<u>\$ 1,259</u>	<u>\$ 755</u>	<u>\$ 1,080</u>

Additionally, the 2008 earnings and gain from discontinued operations from the split-off of the *Post* cereals business included a net tax benefit of \$104 million.

As of January 1, 2009, our unrecognized tax benefits were \$807 million. If we had recognized all of these benefits, the net impact on our income tax provision would have been \$612 million. Our unrecognized tax benefits were \$829 million at December 31, 2009, and if we had recognized all of these benefits, the net impact on our income tax provision would have been \$661 million. We do not expect a significant change in our unrecognized tax benefits during the next 12 months. As this disclosure was made as of December 31, 2009, it does not reflect the impacts of our recent acquisition and divestiture activity. We include accrued interest and penalties related to uncertain tax positions in our tax provision. We had accrued interest and penalties of \$239 million as of January 1, 2009 and \$210 million as of December 31, 2009. Our 2009 provision for income taxes included a \$26 million net benefit for interest and penalties as reversals exceeded expense accruals during the year, due to agreements reached with the IRS on specific matters, settlements with various foreign and state tax authorities and the expiration of the statutes of limitations in various jurisdictions. We also paid interest and penalties of \$10 million during 2009.

The changes in our unrecognized tax benefits for the years ended December 31, 2009, 2008 and 2007 were (in millions):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
January 1	\$ 807	\$ 850	\$ 667
Increases from positions taken during prior periods	90	17	131
Decreases from positions taken during prior periods	(205)	(90)	(23)
Increases from positions taken during the current period	146	98	34
(Decreases) / increases from acquisition adjustments	-	(22)	72
Decreases relating to settlements with taxing authorities	(26)	(8)	(38)
Reductions resulting from the lapse of the applicable statute of limitations	(14)	(13)	(6)
Currency / other	31	(25)	13
December 31	<u>\$ 829</u>	<u>\$ 807</u>	<u>\$ 850</u>

We are regularly examined by federal and various state and foreign tax authorities. The U.S. federal statute of limitations remains open for the year 2000 and onward. During 2009, we reached an agreement with the IRS on specific matters related to years 2000 through 2003. Our returns for those years are still under examination, and the IRS recently began its examination of years 2004 through 2006. In addition, we are currently under examination by taxing authorities in various U.S. state and foreign jurisdictions. U.S. state and foreign jurisdictions have statutes of limitations generally ranging from three to five years. Years still open to examination by foreign tax authorities in major jurisdictions include Germany (1999 onward), Brazil (2003 onward), Canada (2003 onward), Spain (2002 onward) and France (2006 onward).

At December 31, 2009, applicable U.S. federal income taxes and foreign withholding taxes had not been provided on approximately \$5.7 billion of accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested. It is impractical for us to determine the amount of unrecognized deferred tax liabilities on these permanently reinvested 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, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
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 excluding IRS audit impacts	1.9%	2.6%	2.8%
Benefit principally related to reversal of federal and state reserves on IRS audit settlements	(2.8%)	-	-
Reversal of other tax accruals no longer required	(0.3%)	(1.7%)	(1.4%)
Foreign rate differences, net of repatriation impacts	(2.1%)	(5.2%)	(5.2%)
Other	(2.3%)	(1.7%)	(1.0%)
Effective tax rate	<u>29.4%</u>	<u>29.0%</u>	<u>30.2%</u>

Our 2009 effective tax rate included net tax benefits of \$225 million, primarily due to an agreement we reached with the IRS on specific matters, settlements with various foreign and state tax authorities, the expiration of the statutes of limitations in various jurisdictions and the divestiture of our *Balance* bar operations in the U.S.

Our 2008 effective tax rate included net tax benefits of \$222 million from discrete tax events. Of the total net tax benefits, approximately \$50 million related to fourth quarter corrections of state, federal and foreign tax liabilities and a third quarter reconciliation of our inventory of deferred tax items that resulted in a write-down of our net deferred tax liabilities. The remaining net tax benefits primarily related to the resolution of various tax audits and the expiration of statutes of limitations in various jurisdictions. Other discrete tax benefits included the impact from divestitures of a Nordic and Baltic snacks operation and several operations in Spain and the tax benefit from impairment charges taken in 2008. In addition, the 2008 tax rate benefited from foreign earnings taxed below the U.S. federal statutory tax rate and from the expected tax benefit of 2008 restructuring expenses. These benefits were only partially offset by state tax expense and certain foreign costs.

Our 2007 effective tax rate included net tax benefits of \$184 million, primarily including the effects of dividend repatriation benefits, foreign joint venture earnings, and the effect on foreign deferred taxes from lower foreign tax rates enacted in 2007. The 2007 tax rate also benefited from foreign earnings taxed below the U.S. federal statutory tax rate, an increased domestic manufacturing deduction and the divestiture of our flavored water and juice brand assets and related trademarks. These benefits were partially offset by state tax expense, tax costs associated with the divestiture of our hot cereal assets and trademarks and interest income from Altria related to the transfer of our federal tax contingencies discussed in Note 1, *Summary of Significant Accounting Policies*.

The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities consisted of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	(in millions)	
Deferred income tax assets:		
Accrued postretirement and post employment benefits	\$ 1,472	\$ 1,467
Accrued pension costs	456	703
Other	<u>1,997</u>	<u>2,324</u>
Total deferred income tax assets	<u>3,925</u>	<u>4,494</u>
Valuation allowance	<u>(97)</u>	<u>(84)</u>
Net deferred income tax assets	<u>\$ 3,828</u>	<u>\$ 4,410</u>
Deferred income tax liabilities:		
Trade names	\$ (4,431)	\$ (4,431)
Property, plant and equipment	(2,029)	(1,862)
Other	<u>(1,055)</u>	<u>(1,239)</u>
Total deferred income tax liabilities	<u>(7,515)</u>	<u>(7,532)</u>
Net deferred income tax liabilities	<u>\$ (3,687)</u>	<u>\$ (3,122)</u>

Note 15. Earnings Per Share:

Basic and diluted EPS from continuing and discontinued operations were calculated using the following:

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions, except per share data)		
Earnings from continuing operations	\$ 3,028	\$ 1,848	\$ 2,492
Earnings and gain from discontinued operations, net of income taxes	-	1,045	232
Net earnings	3,028	2,893	2,724
Noncontrolling interest	7	9	3
Net earnings attributable to Kraft Foods	<u>\$ 3,021</u>	<u>\$ 2,884</u>	<u>\$ 2,721</u>
Weighted-average shares for basic EPS	1,478	1,505	1,591
Plus incremental shares from assumed conversions of stock options and long-term incentive plan shares	<u>8</u>	<u>10</u>	<u>9</u>
Weighted-average shares for diluted EPS	<u>1,486</u>	<u>1,515</u>	<u>1,600</u>
Basic earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 2.04	\$ 1.22	\$ 1.56
Discontinued operations	-	0.70	0.15
Net earnings attributable to Kraft Foods	<u>\$ 2.04</u>	<u>\$ 1.92</u>	<u>\$ 1.71</u>
Diluted earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 2.03	\$ 1.21	\$ 1.56
Discontinued operations	-	0.69	0.14
Net earnings attributable to Kraft Foods	<u>\$ 2.03</u>	<u>\$ 1.90</u>	<u>\$ 1.70</u>

We exclude antidilutive Kraft Foods stock options from our calculation of weighted-average shares for diluted EPS. We excluded 23.0 million antidilutive options for the year ended December 31, 2009 and 11.3 million antidilutive options for the year ended December 31, 2008. We excluded an insignificant number of antidilutive options for the year ended December 31, 2007.

Note 16. Segment Reporting:

Kraft Foods manufactures and markets packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products. We manage and report operating results through three geographic units: Kraft Foods North America, Kraft Foods Europe and Kraft Foods Developing Markets. We manage the operations of Kraft Foods North America and Kraft Foods Europe by product category, and we manage the operations of Kraft Foods Developing Markets by location. Our reportable segments are U.S. Beverages, U.S. Cheese, U.S. Convenient Meals, U.S. Grocery, U.S. Snacks, Canada & N.A. Foodservice, Kraft Foods Europe (formerly known as European Union) and Kraft Foods Developing Markets.

Effective January 2009, we began implementing changes to our operating structure based on our Organizing For Growth initiative and the Kraft Foods Europe Reorganization. In line with our strategies, we are reorganizing our European operations to function on a pan-European centralized category management and value chain model, and we changed how we work in Europe in two key ways:

- We transitioned our European Biscuit, Chocolate, Coffee and Cheese categories to fully integrated business units, further strengthening our focus on these core categories. To ensure decisions are made faster and closer to our customers and consumers, each category is fully accountable for its financial results, including marketing, manufacturing and R&D. Category leadership, based in Zurich, Switzerland, reports to the Kraft Foods Europe President. These business units now comprise the Kraft Foods Europe segment.
- We aligned the reporting of our Central Europe operations into our Kraft Foods Developing Markets segment to help build critical scale in these countries. We operate a country-led model in these markets.

Management uses segment operating income to evaluate segment performance and allocate resources. We believe it is appropriate to disclose this measure to help investors analyze segment performance and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which are a component of cost of sales), certain components of our U.S. pension plan cost (which is a component of cost of sales and marketing, administration and research costs), general corporate expenses (which are a component of marketing, administration and research costs) and amortization of intangibles for all periods presented. In 2009, we began excluding certain components of our U.S. pension plan cost from segment operating income because we centrally manage pension plan funding decisions and the determination of discount rate, expected rate of return on plan assets and other actuarial assumptions. Therefore, we allocate only the service cost component of our U.S. pension plan expense to segment operating income. We exclude the unrealized gains and losses on hedging activities from segment operating income in order to provide better transparency of our segment operating results. Once realized, the gains and losses on hedging activities are recorded within segment operating results. Furthermore, we centrally manage interest and other expense, net. Accordingly, we do not present these items by segment because they are excluded from the segment profitability measure that management reviews. We use the same accounting policies for the segments as those described in Note 1, *Summary of Significant Accounting Policies*.

Segment data were:

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Net revenues:			
Kraft Foods North America:			
U.S. Beverages	\$ 3,057	\$ 3,001	\$ 2,990
U.S. Cheese	3,605	4,007	3,745
U.S. Convenient Meals	4,496	4,240	3,905
U.S. Grocery	3,453	3,389	3,277
U.S. Snacks	4,964	5,025	4,879
Canada & N.A. Foodservice	4,087	4,294	4,080
Kraft Foods Europe	8,768	9,728	7,007
Kraft Foods Developing Markets	7,956	8,248	5,975
Net revenues	<u>\$ 40,386</u>	<u>\$ 41,932</u>	<u>\$ 35,858</u>

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Earnings from continuing operations before income taxes:			
Operating income:			
Kraft Foods North America:			
U.S. Beverages	\$ 511	\$ 381	\$ 346
U.S. Cheese	667	563	487
U.S. Convenient Meals	510	339	319
U.S. Grocery	1,146	1,009	1,022
U.S. Snacks	723	638	716
Canada & N.A. Foodservice	527	448	443
Kraft Foods Europe	785	182	455
Kraft Foods Developing Markets	936	815	588
Unrealized gains / (losses) on hedging activities	203	(205)	16
Certain U.S. pension plan costs	(165)	-	-
General corporate expenses	(293)	(304)	(203)
Amortization of intangibles	(26)	(23)	(13)
Operating income	5,524	3,843	4,176
Interest and other expense, net	(1,237)	(1,240)	(604)
Earnings from continuing operations before income taxes	\$ 4,287	\$ 2,603	\$ 3,572

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 16% of consolidated net revenues in 2009, 16% in 2008 and 15% in 2007. These net revenues occurred primarily in the Kraft Foods North America segments.

In 2009, unrealized gains on hedging activities of \$203 million primarily resulted from the 2008 unrealized losses on energy derivatives becoming realized in 2009. In 2008, unrealized losses on hedging activities of \$205 million were primarily related to energy derivatives, including heating oil (used primarily to hedge transportation costs) and natural gas contracts. In 2009, general corporate expenses included \$50 million of charges for legal matters related to certain of our European operations (see Part I Item 3. Legal Proceedings for a description of these matters). In 2008, we recorded \$72 million in charges for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations and represented the primary reason general corporate expenses increased \$101 million in 2008.

We incurred costs associated with our Cost Savings Initiatives of \$318 million in 2009. These charges were recorded in operations, primarily within the segment operating income of Kraft Foods Europe with the remainder spread across all other segments. In 2009, we also reversed \$85 million of Restructuring Program costs, with the majority relating to our Kraft Foods Europe segment while the remainder was spread across all other segments. We incurred Restructuring Program costs of \$989 million in 2008 and \$459 million in 2007. Refer to Note 6, *Restructuring Costs*, for a breakout of the 2008 and 2007 charges by segment. We also incurred asset impairment charges of \$21 million in 2009 related to our Kraft Foods Europe segment, \$140 million in 2008 related to our Kraft Foods Europe and Kraft Foods Developing Markets segments, and \$120 million in 2007 related to our U.S. Beverages segment. Refer to Note 5, *Goodwill and Intangible Assets*, for further details of these charges.

As described in Note 2, *Acquisitions and Divestitures*, we divested several operations, and recorded net gains / (losses) on these divestitures in segment operating income as follows:

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Kraft Foods North America:			
U.S. Beverages	\$ -	\$ (1)	\$ (6)
U.S. Cheese	-	-	-
U.S. Convenient Meals	-	-	-
U.S. Grocery	-	-	-
U.S. Snacks	11	-	12
Canada & N.A. Foodservice	-	-	-
Kraft Foods Europe	(17)	(91)	-
Kraft Foods Developing Markets	-	-	8
Gains / (losses) on divestitures, net	<u>\$ (6)</u>	<u>\$ (92)</u>	<u>\$ 14</u>

Total assets, depreciation expense and capital expenditures by segment were:

	2009	2008
	(in millions)	
Total assets:		
Kraft Foods North America:		
U.S. Beverages	\$ 2,382	\$ 2,257
U.S. Cheese	4,589	4,599
U.S. Convenient Meals	3,063	2,857
U.S. Grocery	5,565	5,500
U.S. Snacks	16,418	16,384
Canada & N.A. Foodservice	5,051	4,888
Kraft Foods Europe	16,073	14,346
Kraft Foods Developing Markets	11,087	9,487
Unallocated assets	2,486	2,855
Total assets	<u>\$ 66,714</u>	<u>\$ 63,173</u>

(1) Unallocated assets consist primarily of cash and cash equivalents, deferred income taxes, centrally held property, plant and equipment, prepaid pension assets and derivative financial instrument balances.

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Depreciation expense:			
Kraft Foods North America:			
U.S. Beverages	\$ 69	\$ 68	\$ 57
U.S. Cheese	66	66	62
U.S. Convenient Meals	84	78	81
U.S. Grocery	82	78	63
U.S. Snacks	127	129	140
Canada & N.A. Foodservice	83	93	96
Kraft Foods Europe	237	265	215
Kraft Foods Developing Markets	157	160	115
Total - continuing operations	<u>905</u>	<u>937</u>	<u>829</u>
Discontinued operations	-	26	44
Total depreciation expense	<u>\$ 905</u>	<u>\$ 963</u>	<u>\$ 873</u>

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Capital expenditures:			
Kraft Foods North America:			
U.S. Beverages	\$ 82	\$ 110	\$ 90
U.S. Cheese	72	97	115
U.S. Convenient Meals	196	200	207
U.S. Grocery	85	87	99
U.S. Snacks	190	122	136
Canada & N.A. Foodservice	94	98	83
Kraft Foods Europe	292	285	207
Kraft Foods Developing Markets	319	368	274
Total - continuing operations	1,330	1,367	1,211
Discontinued operations	-	-	30
Total capital expenditures	\$ 1,330	\$ 1,367	\$ 1,241

Net revenues by consumer sector, which includes *Kraft* macaroni and cheese dinners in the Convenient Meals sector and the separation of Canada & N.A. Foodservice, Kraft Foods Europe and Kraft Foods Developing Markets into sector components, were:

	For the Year Ended December 31, 2009			
	Kraft Foods North America	Kraft Foods Europe	Kraft Foods Developing Markets	Total
	(in millions)			
Snacks	\$ 5,929	\$ 4,776	\$ 4,337	\$ 15,042
Beverages	3,545	2,390	2,094	8,029
Cheese	4,980	972	844	6,796
Grocery	3,136	369	566	4,071
Convenient Meals	6,072	261	115	6,448
Total net revenues	\$ 23,662	\$ 8,768	\$ 7,956	\$ 40,386

	For the Year Ended December 31, 2008			
	Kraft Foods North America	Kraft Foods Europe	Kraft Foods Developing Markets	Total
	(in millions)			
Snacks	\$ 5,951	\$ 5,291	\$ 4,668	\$ 15,910
Beverages	3,509	2,625	2,081	8,215
Cheese	5,525	1,109	828	7,462
Grocery	3,211	394	567	4,172
Convenient Meals	5,760	309	104	6,173
Total net revenues	\$ 23,956	\$ 9,728	\$ 8,248	\$ 41,932

	For the Year Ended December 31, 2007			
	Kraft Foods North America	Kraft Foods Europe	Kraft Foods Developing Markets	Total
	(in millions)			
Snacks	\$ 5,704	\$ 2,833	\$ 2,824	\$ 11,361
Beverages	3,499	2,456	1,830	7,785
Cheese	5,199	1,019	710	6,928
Grocery	3,138	363	519	4,020
Convenient Meals	5,336	336	92	5,764
Total net revenues	\$ 22,876	\$ 7,007	\$ 5,975	\$ 35,858

Geographic data for net revenues, long-lived assets and total assets were:

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Net revenues:			
United States	\$ 21,165	\$ 21,436	\$ 20,540
Europe	11,472	12,870	9,105
Other	7,749	7,626	6,213
Total net revenues	<u>\$ 40,386</u>	<u>\$ 41,932</u>	<u>\$ 35,858</u>
	2009	2008	
	(in millions)		
Long-lived assets:			
United States	\$ 31,773	\$ 31,571	
Europe	16,077	14,133	
Other	6,410	6,008	
Total long-lived assets	<u>\$ 54,260</u>	<u>\$ 51,712</u>	
Total assets:			
United States	\$ 35,816	\$ 36,279	
Europe	21,915	18,761	
Other	8,983	8,133	
Total assets	<u>\$ 66,714</u>	<u>\$ 63,173</u>	

Note 17. Quarterly Financial Data (Unaudited):

	2009 Quarters			
	First	Second	Third	Fourth
	(in millions, except per share data)			
Net revenues	\$ 9,396	\$ 10,162	\$ 9,803	\$ 11,025
Gross profit	\$ 3,265	\$ 3,665	\$ 3,541	\$ 4,129
Earnings from continuing operations	\$ 662	\$ 829	\$ 826	\$ 711
Earnings and gain from discontinued operations, net of income taxes	-	-	-	-
Net earnings	662	829	826	711
Noncontrolling interest	2	2	2	1
Net earnings attributable to Kraft Foods	<u>\$ 660</u>	<u>\$ 827</u>	<u>\$ 824</u>	<u>\$ 710</u>
Weighted-average shares for diluted EPS	1,483	1,484	1,487	1,487
Per share data:				
Basic EPS attributable to Kraft Foods:				
Continuing operations	\$ 0.45	\$ 0.56	\$ 0.56	\$ 0.48
Discontinued operations	-	-	-	-
Net earnings attributable to Kraft Foods	<u>\$ 0.45</u>	<u>\$ 0.56</u>	<u>\$ 0.56</u>	<u>\$ 0.48</u>
Diluted EPS attributable to Kraft Foods:				
Continuing operations	\$ 0.45	\$ 0.56	\$ 0.55	\$ 0.48
Discontinued operations	-	-	-	-
Net earnings attributable to Kraft Foods	<u>\$ 0.45</u>	<u>\$ 0.56</u>	<u>\$ 0.55</u>	<u>\$ 0.48</u>
Dividends declared	\$ 0.29	\$ 0.29	\$ 0.29	\$ 0.29
Market price - high	\$ 29.84	\$ 27.24	\$ 29.11	\$ 27.84
- low	\$ 20.81	\$ 21.94	\$ 25.41	\$ 25.72

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

During 2009, we recorded the following pre-tax charges / (gains) in earnings from continuing operations:

	2009 Quarters			
	First	Second	Third	Fourth
	(in millions)			
Asset impairment and exit costs	\$ -	\$ (26)	\$ -	\$ (38)
(Gains) / losses on divestitures, net	-	17	-	(11)
	<u>\$ -</u>	<u>\$ (9)</u>	<u>\$ -</u>	<u>\$ (49)</u>

	2008 Quarters			
	First	Second	Third	Fourth
	(in millions, except per share data)			
Net revenues	\$ 10,046	\$ 10,804	\$ 10,401	\$ 10,681
Gross profit	\$ 3,301	\$ 3,868	\$ 3,305	\$ 3,370
Earnings from continuing operations	\$ 547	\$ 678	\$ 520	\$ 103
Earnings and gain from discontinued operations, net of income taxes	54	69	845	77
Net earnings	601	747	1,365	180
Noncontrolling interest	2	2	3	2
Net earnings attributable to Kraft Foods	<u>\$ 599</u>	<u>\$ 745</u>	<u>\$ 1,362</u>	<u>\$ 178</u>
Weighted-average shares for diluted EPS	1,542	1,532	1,503	1,481
Per share data:				
Basic EPS attributable to Kraft Foods:				
Continuing operations	\$ 0.35	\$ 0.44	\$ 0.34	\$ 0.07
Discontinued operations	0.04	0.05	0.57	0.05
Net earnings attributable to Kraft Foods	<u>\$ 0.39</u>	<u>\$ 0.49</u>	<u>\$ 0.91</u>	<u>\$ 0.12</u>
Diluted EPS attributable to Kraft Foods:				
Continuing operations	\$ 0.35	\$ 0.44	\$ 0.34	\$ 0.07
Discontinued operations	0.04	0.05	0.57	0.05
Net earnings attributable to Kraft Foods	<u>\$ 0.39</u>	<u>\$ 0.49</u>	<u>\$ 0.91</u>	<u>\$ 0.12</u>
Dividends declared	\$ 0.27	\$ 0.27	\$ 0.29	\$ 0.29
Market price - high	\$ 32.85	\$ 32.99	\$ 34.97	\$ 34.05
- low	\$ 28.63	\$ 28.33	\$ 28.04	\$ 24.75

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

During the fourth quarter of 2008, we increased our gain on discontinued operations by \$77 million to correct for a deferred tax liability related to the split-off of the *Post* cereals business. As such, our gain from the split-off of the *Post* cereals business was \$926 million.

During 2008, we recorded the following pre-tax charges / (gains) in earnings from continuing operations:

	2008 Quarters			
	First	Second	Third	Fourth
	(in millions)			
Asset impairment and exit costs	\$ 80	\$ 103	\$ 123	\$ 718
(Gains) / losses on divestitures, net	18	74	1	(1)
	<u>\$ 98</u>	<u>\$ 177</u>	<u>\$ 124</u>	<u>\$ 717</u>

Note 18. Subsequent Events:

We evaluated subsequent events through February 16, 2010 and included all accounting and disclosure requirements related to subsequent events in our financial statements.

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

None.

Item 9A. Controls and Procedures.**Evaluation of Disclosure Controls and Procedures**

Management, together with our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended December 31, 2009, and noted the following significant changes.

- In 2008, we began implementing "Catalyst," a business initiative to simplify and harmonize our systems processes. This multi-year program includes the delivery of SAP enterprise software applications and business solutions. During the quarter ended December 31, 2009, we transitioned some of our processes and procedures into the SAP control environment. As we migrate to the SAP environment, our management ensures that our key controls are mapped to applicable SAP controls, tests transition controls prior to the migration date of those controls, and as appropriate, maintains and evaluates controls over the flow of information to and from SAP. We expect the transition period to be completed in 2011.

We determined that there were no other changes in our internal control over financial reporting during the quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Management on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those written policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- provide reasonable assurance that receipts and expenditures are being made only in accordance with management and director authorization; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Management’s assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting.

Management reviewed the results of our assessment with the Audit Committee of our Board of Directors. Based on this assessment, management determined that, as of December 31, 2009, we maintained effective internal control over financial reporting.

PricewaterhouseCoopers LLP, independent registered public accounting firm, who audited and reported on the consolidated financial statements included in this report, has audited our internal control over financial reporting as of December 31, 2009.

February 16, 2010

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated balance sheets and the related consolidated statements of earnings, of equity and of cash flows appearing in Item 8 present fairly, in all material respects, the financial position of Kraft Foods Inc. and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions and the timing of its annual goodwill and indefinite-lived intangible assets impairment tests in 2007, the manner in which it accounts for defined benefit pension and other postretirement plans in 2008, and the manner in which it accounts for inventories and noncontrolling interests in 2009.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
February 16, 2010

Item 9B. Other Information.

None.

PART III**Item 10. Directors, Executive Officers and Corporate Governance.**

Information required by this Item 10 is included under the headings "Election of Directors," "Corporate Governance," "Nominating and Governance Committee Matters," "Audit Committee Matters" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement for our Annual Meeting of Shareholders scheduled to be held on May 18, 2010 ("2010 Proxy Statement"). All of this information is incorporated by reference into this Annual Report.

The information on our website is not, and shall not be deemed to be, a part of this Annual Report or incorporated into any other filings we make with the SEC.

On June 16, 2009, we filed our Annual CEO Certification as required by Section 303A.12 of the NYSE Listed Company Manual.

Item 11. Executive Compensation.

Information required by this Item 11 is included under the headings "Compensation Committee Matters," "Compensation Discussion and Analysis" and "Executive Compensation Tables" in our 2010 Proxy Statement. All of this information is incorporated by reference into this Annual Report.

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 of awards issued under, and the number of shares remaining available for future issuance under, our equity compensation plans at December 31, 2009 were:

Equity Compensation Plan Information

	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans</u>
Equity compensation plans approved by security holders	52,751,247	\$ 25.56	94,112,562

(1) Includes vesting of deferred and long-term incentive plan stock.

Information related to security ownership of certain beneficial owners and management is in our 2010 Proxy Statement under the heading "Ownership of Equity Securities," which is incorporated by reference into this Annual Report.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information about certain relationships and related transactions is in our 2010 Proxy Statement under the heading "Certain Relationships and Transactions with Related Persons" and information about director independence is in our 2010 Proxy Statement under the heading "Corporate Governance - Director Independence." All of this information is incorporated by reference into this Annual Report.

Item 14. Principal Accountant Fees and Services.

Information about our principal accountant fees is in our 2010 Proxy Statement under the heading "Audit Committee Matters - Independent Auditors' Fees," and information about the Audit Committee's pre-approval policies and procedures is in our 2010 Proxy Statement under the heading "Audit Committee Matters - Pre-Approval Policies." All of this information is incorporated by reference into this Annual Report.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) *Index to Consolidated Financial Statements and Schedules*

	<u>Page</u>
Consolidated Statements of Earnings for the years ended December 31, 2009, 2008 and 2007	55
Consolidated Balance Sheets at December 31, 2009 and 2008	56
Consolidated Statements of Equity for the years ended December 31, 2009, 2008 and 2007	57
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Report of Independent Registered Public Accounting Firm on Financial Statement Schedule	S-1
Financial Statement Schedule-Valuation and Qualifying Accounts	S-2

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

(b) *The following exhibits are filed as part of, or incorporated by reference into, this Annual Report:*

- 2.1 RMT Transaction Agreement, among the Registrant, Cable Holdco, Inc., Ralcorp Holdings, Inc. and Ralcorp Mailman LLC, dated as of November 15, 2007 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 20, 2007).
- 2.2 Master Sale and Purchase Agreement, between Groupe Danone S.A. and Kraft Foods Global, Inc., dated October 29, 2007 (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).*
- 3.1 Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (Reg. No. 333-57162) filed with the SEC on March 16, 2001).
- 3.2 Articles of Amendment to the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (Reg. No. 333-57162) filed with the SEC on March 16, 2001).
- 3.3 Amended and Restated By-Laws of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 22, 2009).
- 4.1 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 SEC upon request.
- 4.2 Indenture, by and between the Registrant and Deutsche Bank Trust Company Americas (as successor trustee to The Bank of New York and The Chase Manhattan Bank), dated as of October 17, 2001 (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-3 (Reg. No. 333-86478) filed with the SEC on April 18, 2002).
- 10.1 Acquisition and Refinancing Bridge Credit Agreement, by and among the Registrant, the initial lenders named therein, Citibank, N.A., Deutsche Bank AG Cayman Islands Branch, and HSBC Securities (USA) Inc., dated as of November 9, 2009 (incorporated by reference to Exhibit 99.9 to the Registrant's Current Report on Form 8-K filed with the SEC on December 4, 2009).
- 10.2 Amendment No. 1 to Acquisition and Refinancing Bridge Credit Agreement, among the Registrant, Citibank, N.A. and the lenders named therein, dated as of January 18, 2010 (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the SEC on January 19, 2010).
- 10.3 Amendment No. 2 to Acquisition and Refinancing Bridge Credit Agreement, among the Registrant, Citibank, N.A. and the lenders named therein, dated as of January 29, 2010.

-
- 10.4 \$4.5 Billion 3-Year Revolving Credit Agreement, by and among the Registrant, the initial lenders named therein, Deutsche Bank AG New York Branch, Citibank, N.A., HSBC Securities (USA) Inc., Credit Suisse Securities (USA) LLC, and JPMorgan Chase Bank, N.A., dated as of November 30, 2009 (incorporated by reference to Exhibit 99.10 to the Registrant's Current Report on Form 8-K filed with the SEC on December 4, 2009).
 - 10.5 Agreement Relating to United Biscuits Southern Europe, among Kraft Foods International, Inc. and United Biscuits Group (Investments) Limited, Deluxestar Limited, UB Overseas Limited, UB investments (Netherlands) B.V. and Nabisco Euro Holdings LTD, dated as of July 8, 2006 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 13, 2006).
 - 10.6 Master Professional Services Agreement, among Kraft Foods Global, Inc., EDS Information Services, L.L.C. and Electronic Data Systems Corporation, dated as of April 27, 2006 (incorporated by reference to Exhibit 10.25 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).*
 - 10.7 Tax Sharing Agreement, by and between the Registrant and Altria Group, Inc., dated as of March 30, 2007 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on March 30, 2007).
 - 10.8 Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan, amended as of December 31, 2009.+
 - 10.9 Form of Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan Restricted Stock Agreement.+
 - 10.10 Form of Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan Non-Qualified US Stock Option Award Agreement.+
 - 10.11 Kraft Foods Inc. Supplemental Benefits Plan I (including First Amendment adding Supplement A) (incorporated by reference to Exhibit 10.7 to the Registrant's Amendment No. 1 to the Registration Statement on Form S-1/A filed with the SEC on May 2, 2001).+
 - 10.12 Kraft Foods Inc. Supplemental Benefits Plan II (incorporated by reference to Exhibit 10.8 to the Registrant's Amendment No. 1 to the Registration Statement on Form S-1/A filed with the SEC on May 2, 2001).+
 - 10.13 Form of Employee Grantor Trust Enrollment Agreement (incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K of Altria Group, Inc. for the year ended December 31, 1995).+
 - 10.14 Kraft Foods Inc. 2006 Stock Compensation Plan for Non-Employee Directors, amended as of December 31, 2008 (incorporated by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
 - 10.15 Kraft Foods Inc. 2001 Compensation Plan for Non-Employee Directors, amended as of December 31, 2008 (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
 - 10.16 Kraft Foods Inc. Change in Control Plan for Key Executives, amended as of December 31, 2009.+
 - 10.17 Kraft Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 30, 2008).+
 - 10.18 Kraft Executive Deferred Compensation Plan Adoption Agreement, amended as of November 3, 2008 (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
 - 10.19 Offer of Employment Letter, between the Registrant and Irene B. Rosenfeld, dated June 26, 2006 (incorporated by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).+
 - 10.20 Amendment to Offer of Employment Letter, between the Registrant and Irene B. Rosenfeld, amended as of December 31, 2008 (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
 - 10.21 Offer of Employment Letter, between the Registrant and Timothy R. McLevish, dated August 22, 2007 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).+

- 10.22 Amendment to Offer of Employment Letter, between the Registrant and Timothy R. McLevish, amended as of December 31, 2008 (incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
- 10.23 Offer of Employment Letter, between the Registrant and Sanjay Khosla, dated December 1, 2006 (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
- 10.24 Amendment to Offer of Employment Letter, between the Registrant and Sanjay Khosla, amended as of December 31, 2008 (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
- 10.25 Offer of Employment Letter, between the Registrant and Michael Osanloo, dated March 10, 2008 (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
- 10.26 Amendment to Offer of Employment Letter, between the Registrant and Michael Osanloo, amended as of December 31, 2008 (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
- 10.27 Offer of Employment Letter, between the Registrant and Michael A. Clarke, dated as of December 11, 2008 (incorporated by reference to 10.27 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
- 10.28 Form of Indemnification Agreement for Non-Employee Directors (incorporated by reference to 10.28 to the Registrant's Annual Report on Form 10-K filed with the SEC on February 27, 2009).+
- 10.29 Indemnification Agreement between the Registrant and Irene B. Rosenfeld, dated January 27, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on February 2, 2009).+
- 10.30 Offer of Employment Letter, between the Registrant and W. Anthony Vernon, dated June 17, 2009 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 5, 2009).+
- 10.31 Amendment to Offer of Employment Letter, between the Registrant and W. Anthony Vernon, amended as of November 23, 2009.+
- 12.1 Computation of Ratios of Earnings to Fixed Charges.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
- 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 Certifications of the Registrant's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.1 The following materials from Kraft Foods' Annual Report on Form 10-K for the fiscal year ended December 31, 2009, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Earnings, (ii) the Consolidated Statements of Equity, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) Notes to Consolidated Financial Statements, tagged as blocks of text, and (vi) document and entity information.

* Pursuant to a request for confidential treatment, portions of this exhibit have been redacted from the publicly filed document and have been furnished separately to the SEC as required by Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

+ Indicates a management contract or compensatory plan or arrangement.

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/ TIMOTHY R. McLEVISH
(Timothy R. McLevish,
Executive Vice President
and Chief Financial Officer)

Date: February 25, 2010

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:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ IRENE B. ROSENFELD</u> (Irene B. Rosenfeld)	Director, Chairman and Chief Executive Officer	February 25, 2010
<u>/s/ TIMOTHY R. McLEVISH</u> (Timothy R. McLevish)	Executive Vice President and Chief Financial Officer	February 25, 2010
<u>/s/ KIM HARRIS JONES</u> (Kim Harris Jones)	Senior Vice President and Corporate Controller	February 25, 2010
<u>/s/ AJAYPAL S. BANGA</u> (Ajaypal S. Banga)	Director	February 25, 2010
<u>/s/ MYRA M. HART</u> (Myra M. Hart)	Director	February 25, 2010
<u>/s/ LOIS D. JULIBER</u> (Lois D. Juliber)	Director	February 25, 2010
<u>/s/ MARK D. KETCHUM</u> (Mark D. Ketchum)	Director	February 25, 2010
<u>/s/ RICHARD A. LERNER, M.D.</u> (Richard A. Lerner, M.D.)	Director	February 25, 2010
<u>/s/ MACKEY J. McDONALD</u> (Mackey J. McDonald)	Director	February 25, 2010
<u>/s/ JOHN C. POPE</u> (John C. Pope)	Director	February 25, 2010
<u>/s/ FREDRIC G. REYNOLDS</u> (Fredric G. Reynolds)	Director	February 25, 2010
<u>/s/ JEAN-FRANÇOIS M.L. VAN BOXMEER</u> (Jean-François M.L., van Boxmeer)	Director	February 25, 2010
<u>/s/ DEBORAH C. WRIGHT</u> (Deborah C. Wright)	Director	February 25, 2010
<u>/s/ FRANK G. ZARB</u> (Frank G. Zarb)	Director	February 25, 2010

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON FINANCIAL STATEMENT SCHEDULE**

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

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 16, 2010 appearing in the 2009 Annual Report on Form 10-K of Kraft Foods Inc. 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
February 16, 2010

S-1

Kraft Foods Inc. and Subsidiaries
Valuation and Qualifying Accounts
for the years ended December 31, 2009, 2008 and 2007
(in millions)

Col. A	Col. B	Col. C		Col. D	Col. E
Description	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts (a)	(b)	
2009:					
Allowance for discounts	\$ 28	\$ 35	\$ 4	\$ 59	\$ 8
Allowance for doubtful accounts	128	32	13	35	138
Allowance for deferred taxes	84	19	13	19	97
	<u>\$ 240</u>	<u>\$ 86</u>	<u>\$ 30</u>	<u>\$ 113</u>	<u>\$ 243</u>
2008:					
Allowance for discounts	\$ 5	\$ 73	\$ 17	\$ 67	\$ 28
Allowance for doubtful accounts	118	47	(22)	15	128
Allowance for deferred taxes	105	11	(16)	16	84
	<u>\$ 228</u>	<u>\$ 131</u>	<u>\$ (21)</u>	<u>\$ 98</u>	<u>\$ 240</u>
2007:					
Allowance for discounts	\$ 7	\$ 24	\$ -	\$ 26	\$ 5
Allowance for doubtful accounts	103	26	18	29	118
Allowance for deferred taxes	100	52	10	57	105
	<u>\$ 210</u>	<u>\$ 102</u>	<u>\$ 28</u>	<u>\$ 112</u>	<u>\$ 228</u>

Notes:

- (a) Primarily related to divestitures, acquisitions and currency translation.
- (b) Represents charges for which allowances were created.

**AMENDMENT NO. 2 TO ACQUISITION AND REFINANCING
BRIDGE CREDIT AGREEMENT**

AMENDMENT NO. 2, dated as of January 29, 2010 (this “Amendment”), among Kraft Foods Inc., a Virginia corporation (“Kraft”), Citibank, N.A. (“Citi”), as Paying Agent (the “Paying Agent”) and the Lenders set forth on the signature pages hereto to the Acquisition and Refinancing Bridge Credit Agreement dated as of November 9, 2009 (as amended, modified or supplemented from time to time, the “Credit Agreement”) among Kraft, the Lenders from time to time party thereto, Citi and Deutsche Bank AG Cayman Islands Branch (“DB”), as co-administrative agents, the Paying Agent; HSBC Securities (USA) Inc., as syndication agent and DB, as documentation agent. Capitalized terms used herein but not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement.

WHEREAS, pursuant to Section 9.01 thereof, Kraft has requested that the Required Lenders agree to amend certain provisions of the Credit Agreement as provided for herein; and

WHEREAS, subject to the conditions set forth herein, the Required Lenders are willing to agree to such amendment relating to the Credit Agreement.

NOW, THEREFORE, in consideration of the premises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Amendments.

(a) The definition of “Interest Period” in Section 1.01 is amended by deleting the phrase “the duration of each such Interest Period shall be one, two, three or six months, or, if agreed by all Lenders, nine or twelve months” appearing in the second sentence in such definition and replacing it with “the duration of each such Interest Period shall be seven days, one month, two months, three months or six months, or, if agreed by all Lenders, nine or twelve months (it being understood that the Borrower may not elect to have more than five Advances having an Interest Period of seven days outstanding at any time)”;

(b) Section 2.02(a) is amended by deleting the phrase “11:00 a.m. (London time) on the third Business Day” in sub-clause (x) of the first sentence in such section and replacing it with “9:30 a.m. (New York City time) on the second Business Day”;

(c) Section 2.09(a) is amended by deleting the phrase “upon at least three Business Day’s notice” appearing in such section and replacing it with “upon at least two Business Day’s notice”; and

(d) Section 2.10(a) is amended by deleting the phrase “upon at least five Business Days’ notice to the Administrative Agent” appearing in such section and replacing it with “upon at least two Business Days’ notice to the Administrative Agent not later than 9:30 a.m. (New York City time) on the second business day prior to the date of the proposed prepayment.”

Section 2. Representations and Warranties. Kraft hereby represents and warrants to the Paying Agent and the Lenders as of the date hereof that:

(a) The execution, delivery and performance of this Amendment have been duly authorized by all necessary corporate action by Kraft and do not contravene (i) the charter or by-laws of Kraft or (ii) in any material respect, any law, rule, regulation or order of any court or governmental agency or any contractual restriction binding on or affecting Kraft; and

(b) After giving effect to this Amendment, the representations and warranties set forth in the Credit Agreement are true and correct in all material respects on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date.

Section 3. Conditions to Effectiveness. This Amendment shall become effective on the date on which each of the following conditions is satisfied or waived:

(a) The Paying Agent shall have executed this Amendment and the Paying Agent (or their counsel) shall have received an executed counterpart of this Amendment from Kraft and the Required Lenders; and

(b) The Paying Agent shall have received for the account of each Lender a certificate signed by a duly authorized officer of Kraft, dated the date hereof, stating that: (i) the representations and warranties contained in Section 4.01 of the Credit Agreement are correct on and as of the date hereof, and (ii) no event has occurred and is continuing on and as of the date hereof that constitutes a Default or Event of Default.

Section 4. Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original, but all of which when taken together shall constitute a single instrument. Delivery of an executed counterpart of a signature page of this Amendment by facsimile transmission or email shall be effective as delivery of a manually executed counterpart hereof.

Section 5. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE SUBSTANTIVE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CHOICE OF LAW DOCTRINES.

Section 6. Headings. The headings of this Amendment are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

Section 7. Effect of Amendment. Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Lenders or the Agents under the Credit Agreement or any other documents related thereto, and, save as expressly set forth herein, shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of the Credit Agreement or any document related thereto, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

KRAFT FOODS INC.

By: /s/ Barbara Brasier
Name: Barbara Brasier
Title: Senior Vice President and Treasurer

CITIBANK, N.A.,
as Paying Agent and as a Lender

By: /s/ Carolyn Kee
Name: Carolyn Kee
Title: Vice President

DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH, as a
Lender

By: /s/ Frederick W. Laird
Name: Frederick W. Laird
Title: Managing Director

By: /s/ Ming K. Chu
Name: Ming K. Chu
Title: Vice President

DEUTSCHE BANK AG LONDON BRANCH,
as a Lender

By: /s/ T. Hallaways
Name: T. Hallaways
Title: Vice President

By: /s/ M. Naulls
Name: M. Naulls
Title: A. Vice President

Amendment No. 2 to Acquisition and Refinancing Bridge Credit Agreement

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH,
as a Lender

By: /s/ Karl Studer
Name: Karl Studer
Title: Director

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.,
as a Lender

By: /s/ Peter Tommaney
Name: Peter Tommaney
Title: Senior Vice President

By: /s/ Micheal D'anna
Name: MICHEAL D'ANNA
Title: Director

BNP PARIBAS,
as a Lender

By: /s/ Renaud-Franick Falce
Name: Renaud-Franick Falce
Title: Managing Director

By: /s/ Scott Tricarico
Name: Scott Tricarico
Title: Vice President

Amendment No. 2 to Acquisition and Refinancing Bridge Credit Agreement

SOCIETE GENERALE,
as a Lender

By: /s/ Anne Chassereau
Name: Anne Chassereau
Title: Managing Director

BARCLAYS BANK PLC.,
as a Lender

By: /s/ David Barton
Name: David Barton
Title: Director

BANCO SANTANDER S.A., NEW YORK BRANCH
as a Lender

By: /s/ Ignacio Campillo
Name: Ignacio Campillo
Title: Managing Director

By: /s/ Ramon E. Colon Navarro
Name: Ramon E. Colon Navarro
Title: Vice President

INTESA SANPAOLO S.P.A.,
as a Lender

By: /s/ Francesco Di Mario
Name: Francesco Di Mario
Title: FVP, Credit Manager

By: /s/ John J. Michalisin
Name: John J. Michalisin
Title: First Vice President

Amendment No. 2 to Acquisition and Refinancing Bridge Credit Agreement

CALYON NEW YORK BRANCH,
as a Lender

By: /s/ David Cagle
Name: David Cagle
Title: Managing Director

By: /s/ Bryan Myers
Name: Bryan Myers
Title: Senior Vice President

ING BANK N.V., DUBLIN BRANCH,
as a Lender

By: /s/ Padraig Matthews
Name: Padraig Matthews
Title: Vice President

By: /s/ Sean Hassett
Name: Sean Hassett
Title: Director

Amendment No. 2 to Acquisition and Refinancing Bridge Credit Agreement

KRAFT FOODS INC.
AMENDED AND RESTATED 2005 PERFORMANCE INCENTIVE PLAN
(As Amended and Restated as of December 31, 2009)

Section 1. Purpose; Definitions.

The purpose of the Plan is to support the Company's ongoing efforts to develop and retain world-class leaders and to provide the Company with the ability to provide incentives more directly linked to the profitability of the Company's businesses and increases in shareholder value.

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

- (a) "Annual Incentive Award" means an Incentive Award made pursuant to Section 5(a)(vi) with a Performance Cycle of one year or less.
- (b) "Awards" mean grants under the Plan or, to the extent relevant, under any Prior Plan, of Incentive Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Deferred Stock Units, or Other Stock-Based Awards.
- (c) "Board" means the Board of Directors of the Company.
- (d) "Cause" means termination because of:
 - (i) Continued failure to substantially perform the Participant's job's duties (other than resulting from incapacity due to disability);
 - (ii) Gross negligence, dishonesty, or violation of any reasonable rule or regulation of the Company where the violation results in significant damage to the Company; or
 - (iii) Engaging in other conduct which adversely reflects on the Company in any material respect.
- (e) "Change in Control" has the meaning set forth in Section 6.
- (f) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.
- (g) "Commission" means the Securities and Exchange Commission or any successor agency.

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- (h) “Committee” means the Human Resources and Compensation Committee of the Board or a subcommittee thereof, any successor thereto or such other committee or subcommittee as may be designated by the Board to administer the Plan.
- (i) “Common Stock” or “Stock” means the Class A Common Stock of the Company.
- (j) “Company” means Kraft Foods Inc., a corporation organized under the laws of the Commonwealth of Virginia, or any successor thereto.
- (k) “Deferred Stock Unit” means such Award as described in Section 5(a)(v).
- (l) “Economic Value Added” means net after-tax operating profit less the cost of capital.
- (m) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.
- (n) “Fair Market Value” means, as of any given date, the mean between the highest and lowest reported sales prices of the Common Stock on the New York Stock Exchange-Composite Transactions or, if no such sale of Common Stock is reported on such date, the fair market value of the Stock as determined by the Committee in good faith; provided, however, that the Committee may in its discretion designate the actual sales price as Fair Market Value in the case of dispositions of Common Stock under the Plan.
- (o) “Good Reason” means:
- (i) the assignment to the Participant of any duties substantially inconsistent with the Participant’s position, authority, duties or responsibilities in effect immediately prior to the Change in Control, or any other action by the Company that results in a marked diminution in the Participant’s position, authority, duties or responsibilities, excluding for this purpose:
 - a. changes in the Participant’s position, authority, duties or responsibilities which are consistent with the Participant’s education, experience, etc.; or
 - b. an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Participant;
 - (ii) any material reduction in the Participant’s base salary, annual incentive or long-term incentive opportunity as in effect immediately prior to the Change in Control;

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- (iii) the Company's, its subsidiaries' or affiliates' requiring the Participant to be based at any office or location other than any other location which does not extend the Participant's home to work location commute as of the time of the Change in Control by more than 50 miles;
 - (iv) the Company's, its subsidiaries' or affiliates' requiring the Participant to travel on business to a substantially greater extent than required immediately prior to the Change in Control; or
 - (v) any failure by the Company to require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, as required by Section 6 of the Plan.

The Participant must notify the Company of any event purporting to constitute Good Reason within 45 days following the Participant's knowledge of its existence, and the Company shall have 20 days in which to correct or remove such Good Reason, or such event shall not constitute Good Reason.

- (p) "Incentive Award" means any Award that is either an Annual Incentive Award or a Long-Term Incentive Award.
- (q) "Incentive Stock Option" means any Stock Option that is designated as being an Incentive Stock Option and complies with Section 422 (or any amended or successor provision) of the Code.
- (r) "Long-Term Incentive Award" means an Incentive Award made pursuant to Section 5(a)(vi) with a Performance Cycle of more than one year.
- (s) "Nonqualified Stock Option" means any Stock Option that is not an Incentive Stock Option.
- (t) "Other Stock-Based Award" means an Award made pursuant to Section 5(a)(iii).
- (u) "Participant" means any eligible individual as set forth in Section 3 to whom an Award is granted.
- (v) "Performance Cycle" means the period selected by the Committee during which the performance of the Company or any subsidiary, affiliate or unit thereof or any individual is measured for the purpose of determining the extent to which an Award subject to Performance Goals has been earned.
- (w) "Performance Goals" mean the objectives for the Company or any subsidiary or affiliate or any unit thereof or any individual that may be established by the Committee for a Performance Cycle with respect to any performance-based Awards contingently awarded under the Plan. Performance Goals may be provided in absolute terms, or in relation to the Company's peer group. The Company's peer group will be determined by the Committee, in its sole discretion. The Performance Goals for Awards that are intended to constitute "performance-based" compensation within the meaning of Section 162(m) (or any amended or successor provision) of the Code shall be based on one or more of the following criteria: net earnings or net income (before or after taxes), operating income, earnings per share, net sales or revenue growth, adjusted net income, net operating profit or income, return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales, or revenue), cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity, and cash flow return on investment), earnings before or after taxes, interest, depreciation, and/or amortization, gross or operating margins, productivity ratios, share price (including, but not limited to, growth measures and total shareholder return), cost control, margins, operating efficiency, market share, customer satisfaction or employee satisfaction, working capital, management development, succession planning, taxes, depreciation and amortization or Economic Value Added.

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- (x) "Plan" means this Kraft Foods Inc. 2005 Performance Incentive Plan, as amended and restated as of May 20, 2009, as further amended from time to time.
 - (y) "Prior Plan" means the Kraft Foods Inc. 2001 Performance Incentive Plan.
 - (z) "Restricted Period" means the period during which an Award may not be sold, assigned, transferred, pledged or otherwise encumbered.
 - (aa) "Restricted Stock" means an Award of shares of Common Stock pursuant to Section 5(a)(iv).
 - (bb) "Restricted Stock Unit" means such Award as described in Section 5(a)(v).
 - (cc) "Spread Value" means, with respect to a share of Common Stock subject to an Award, an amount equal to the excess of the Fair Market Value, on the date such value is determined, over the Award's exercise or grant price, if any.
 - (dd) "Stock Appreciation Right" or "SAR" means a right granted pursuant to Section 5(a)(ii).
 - (ee) "Stock Option" means an Incentive Stock Option or a Nonqualified Stock Option granted pursuant to Section 5(a)(i).

Section 2. Administration.

The Plan shall be administered by the Committee, which shall have the power to interpret the Plan and to adopt such rules and guidelines for carrying out the Plan as it may deem appropriate. The Committee shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with the laws, regulations, compensation practices and tax and accounting principles of the countries in which the Company, or a subsidiary or an affiliate thereof, may operate to assure the viability of the benefits of Awards made to individuals employed in such countries and to meet the objectives of the Plan.

Subject to the terms of the Plan, the Committee shall have the authority to determine those employees eligible to receive Awards and the amount, type and terms of each Award and to establish and administer any Performance Goals applicable to such Awards. The Committee may delegate its authority and power under the Plan to one or more officers of the Company, subject to guidelines prescribed by the Committee, but only with respect to Participants who are not subject to either Section 16 (or any amended or successor provision) of the Exchange Act or Section 162(m) (or any amended or successor provision) of the Code.

Any determination made by the Committee or by one or more officers pursuant to delegated authority in accordance with the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such delegate, and all decisions made by the Committee or any appropriately designated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and Plan Participants.

Section 3. Eligibility.

Salaried employees of the Company, its subsidiaries and affiliates who are responsible for or contribute to the management, growth and profitability of the business of the Company, its subsidiaries or its affiliates, are eligible to be granted Awards under the Plan.

Section 4. Common Stock Subject to the Plan.

- (a) Common Stock Available. The total number of shares of Common Stock reserved and available for distribution pursuant to the Plan shall be 168,000,000 shares, which consists of 150,000,000 shares that were approved in 2005 and 18,000,000 shares that were added as of the May 20, 2009 Amendment and Restatement. An amount not to exceed 27,509,964 shares of Common Stock may be issued pursuant to Restricted Stock Awards, Restricted Stock Unit Awards, Deferred Stock Unit Awards, Other Stock-Based Awards, and Incentive Awards, except that Other Stock-Based Awards with values based on Spread Values shall not be included in this limitation; and except further, that Restricted Stock Awards, Restricted Stock Unit Awards, Deferred Stock Unit Awards, Other Stock-Based Awards, and Incentive Awards granted prior to May 20, 2009 shall not be included in this limitation. Except as otherwise provided herein, any Award made under the Prior Plan before the expiration of such Prior Plan shall continue to be subject to the terms and conditions of such Prior Plan and the applicable Award agreement. Any adjustments, substitutions, or other actions that may be made or taken in accordance with Section 4(b) below in connection with the corporate transactions or events described therein shall, to the extent applied to outstanding Awards made under the Prior Plan, be deemed made from shares reserved for issuance under such Prior Plan, rather than this Plan, pursuant to the authority of the Board under the Prior Plan to make adjustments and substitutions in such circumstances to the aggregate number and kind of shares reserved for issuance under the Prior Plan and to Awards granted under the Prior Plan. To the extent any Award under this Plan is exercised or cashed out or terminates or expires or is forfeited without a payment being made to the Participant in the form of Common Stock, the shares subject to such Award that were not so paid, if any, shall again be available for distribution in connection with Awards under the Plan; provided, however, that any shares which are available again for Awards under the Plan also shall count against the limit described in Section 5(b)(i). If a SAR or similar Award based on Spread Value with respect to shares of Common Stock is exercised, the full number of shares of Common Stock with respect to which the Award is measured will nonetheless be deemed distributed for purposes of determining the maximum number of shares remaining available for delivery under the Plan. Similarly, any shares of Common Stock that are used by a Participant as full or partial payment of withholding or other taxes or as payment for the exercise or conversion price of an Award under the Plan will be deemed distributed for purposes of determining the maximum number of shares remaining available for delivery under the Plan.

(b) Adjustments for Certain Corporate Transactions

- (i) In the event of any merger, share exchange, reorganization, consolidation, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants or other similar transaction or event affecting the Common Stock in any case after adoption of the Plan by the Board, the Committee shall make such adjustments or substitutions with respect to the Plan and the Prior Plan and to Awards granted thereunder as it deems appropriate to reflect the occurrence of such event, including, but not limited to, adjustments (A) to the aggregate number and kind of securities reserved for issuance under the Plan, (B) to the Award limits set forth in Section 5, (C) to the Performance Goals or Performance Cycles of any outstanding Performance-Based Awards, and (D) to the number and kind of securities subject to outstanding Awards and, if applicable, the grant or exercise price or Spread Value of outstanding Awards. In addition, the Committee may make an Award in substitution for incentive awards, stock awards, stock options or similar awards held by an individual who is, previously was, or becomes an employee of the Company, a subsidiary or an affiliate in connection with a transaction described in this Section 4(b)(i). Notwithstanding any provision of the Plan (other than the limitation set forth in Section 4(a)), the terms of such substituted Awards shall be as the Committee, in its discretion, determines is appropriate.

(ii) Specific Adjustments.

- (A) In connection with any of the events described in Section 4(b)(i), the Committee shall also have authority with respect to the Plan and the Prior Plan and to Awards granted thereunder (x) to grant Awards (including Stock Options, SARs, and Other Stock-Based Awards) with a grant price that is less than Fair Market Value on the date of grant in order to preserve existing gain under any similar type of award previously granted by the Company or another entity to the extent that the existing gain would otherwise be diminished without payment of adequate compensation to the holder of the award for such diminution, and (y) except as may otherwise be required under an applicable Award agreement, to cancel or adjust the terms of an outstanding Award as appropriate to reflect the substitution for the outstanding Award of an award of equivalent value granted by another entity.
- (B) In connection with a spin-off or similar corporate transaction, the Committee shall also have authority with respect to the Plan and the Prior Plan and to Awards granted thereunder to make adjustments described in this Section 4(b) that may include, but are not limited to, (x) the imposition of restrictions on any distribution with respect to Restricted Stock or similar Awards and (y) the substitution of comparable Stock Options to purchase the stock of another entity or SARs, Restricted Stock Units, Deferred Stock Units or Other Stock-Based Awards denominated in the securities of another entity, which may be settled in the form of cash, Common Stock, stock of such other entity, or other securities or property, as determined by the Committee; and, in the event of such a substitution, references in this Plan and the Prior Plan and in the applicable Award agreements thereunder to “Common Stock” or “Stock” shall be deemed to also refer to the securities of the other entity where appropriate.
- (iii) In connection with any of the events described in Section 4(b)(i), with respect to the Plan and the Prior Plan and to Awards granted hereunder, the Committee is also authorized to provide for the payment of any outstanding Awards in cash, including, but not limited to, payment of cash in lieu of any fractional Awards, provided that any such payment shall be exempt from or comply with the requirements of Section 409A of the Code.

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- (iv) In the event of any conflict between this Section 4(b) and other provisions of the Plan or the Prior Plan, the provisions of this section shall control. Receipt of an Award under the Plan shall constitute an acknowledgement by the Participant receiving such Award of the Committee's ability to adjust Awards under the Prior Plans in a manner consistent with this Section 4(b).

Section 5. Awards.

- (a) General. The types of Awards that may be granted under the Plan are set forth below. Awards may be granted singly, in combination or in tandem with other Awards. All Award agreements are incorporated in and constitute part of the Plan.
- (i) Stock Options. A Stock Option represents the right to purchase a share of Stock at a predetermined grant price. Stock Options granted under the Plan may be in the form of Incentive Stock Options or Nonqualified Stock Options, as specified in the Award agreement but no Stock Option designated as an Incentive Stock Option shall be invalid in the event that it fails to qualify as an Incentive Stock Option. The term of each Stock Option shall be set forth in the Award agreement, but no Stock Option shall be exercisable more than ten years after the grant date. The grant price per share of Common Stock purchasable under a Stock Option shall not be less than 100% of the Fair Market Value on the date of grant. Subject to the applicable Award agreement, Stock Options may be exercised, in whole or in part, by giving written notice of exercise specifying the number of shares to be purchased. Such notice shall be accompanied by payment in full of the purchase price by certified or bank check or such other instrument as the Company may accept (including a copy of instructions to a broker or bank acceptable to the Company to deliver promptly to the Company an amount sufficient to pay the purchase price). Unless otherwise determined by the Committee, payment in full or in part may also be made in the form of Common Stock already owned by the Participant valued at Fair Market Value on the day preceding the date of exercise; provided, however, that such Common Stock shall not have been acquired by the Participant within the six months following the exercise of a Stock Option or SAR, within six months after the lapse of restrictions on Restricted Stock, or within six months after the receipt of Common Stock from the Company, whether in settlement of any Award or otherwise.
- (ii) Stock Appreciation Rights. A SAR represents the right to receive a cash payment, shares of Common Stock, or both (as determined by the Committee), with a value equal to the Spread Value on the date the SAR is exercised. The grant price of a SAR shall be set forth in the applicable Award agreement and shall not be less than 100% of the Fair Market Value on the date of grant. Subject to the terms of the applicable Award agreement, a SAR shall be exercisable, in whole or in part, by giving written notice of exercise, but no SAR shall be exercisable more than ten years after the grant date.

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- (iii) Other Stock-Based Awards. Other Stock-Based Awards are Awards, other than Stock Options, SARs, Restricted Stock, Restricted Stock Units, or Deferred Stock Units, that are denominated in, valued in whole or in part by reference to, or otherwise based on or related to, Common Stock. The grant, purchase, exercise, exchange or conversion of Other Stock-Based Awards granted under this subsection (iii) shall be on such terms and conditions and by such methods as shall be specified by the Committee. Where the value of an Other Stock-Based Award is based on the Spread Value, the grant price for such an Award will not be less than 100% of the Fair Market Value on the date of grant.
 - (iv) Restricted Stock. Shares of Restricted Stock are shares of Common Stock that are awarded to a Participant and that during the Restricted Period may be forfeitable to the Company upon such conditions as may be set forth in the applicable Award agreement. Except as provided in the applicable Award agreement, Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered during the Restricted Period. Except as provided in the applicable Award agreement, a Participant shall have with respect to such Restricted Stock all the rights of a holder of Common Stock during the Restricted Period.
 - (v) Restricted Stock Units and Deferred Stock Units. Restricted Stock Units and Deferred Stock Units represent the right to receive shares of Common Stock, cash, or both (as determined by the Committee) upon satisfaction of such conditions as may be set forth in the applicable Award agreement. Except as provided in the applicable Award agreement, Restricted Stock Units and Deferred Stock Units may not be sold, assigned, transferred, pledged or otherwise encumbered during the Restricted Period. Except as provided in the applicable Award agreement, a Participant shall have with respect to such Restricted Stock Units and Deferred Stock Units none of the rights of a holder of Common Stock unless and until shares of Common Stock are actually delivered in satisfaction of the restrictions and other conditions of such Restricted Stock Units or Deferred Stock Units.
 - (vi) Incentive Awards. Incentive Awards are performance-based Awards that are expressed in U.S. currency or Common Stock or any combination thereof. Incentive Awards shall either be Annual Incentive Awards or Long-Term Incentive Awards.

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- (b) Maximum Awards. Subject to the exercise of the Committee's authority pursuant to Section 4:
- (i) The total number of shares of Common Stock subject to Stock Options and SARs awarded during any calendar year to any Participant shall not exceed 3,000,000 shares.
 - (ii) The total amount of any Annual Incentive Award awarded to any Participant with respect to any Performance Cycle, taking into account the cash and the Fair Market Value of any Common Stock payable with respect to such Award, shall not exceed \$10,000,000.
 - (iii) The total amount of any Long-Term Incentive Award awarded to any Participant with respect to any Performance Cycle shall not exceed 400,000 shares of Common Stock multiplied by the number of years in the Performance Cycle or, in the case of Awards expressed in currency, \$8,000,000 multiplied by the number of years in the Performance Cycle.
 - (iv) An amount not in excess of 1,000,000 shares of Common Stock may be issued or issuable to any Participant in a calendar year pursuant to Restricted Stock, Restricted Stock Units, Deferred Stock Units, and Other Stock-Based Awards, except that Other Stock-Based Awards with values based on Spread Values shall not be included in this limitation.
- (c) Performance-Based Awards. Any Awards granted pursuant to the Plan may be in the form of performance-based Awards through the application of Performance Goals and Performance Cycles.
- (d) Vesting. Awards granted under the Plan shall vest at such time or times as shall be determined by the Committee; provided, however, that no condition relating to the vesting of an Award that is based upon Performance Goals shall be based on a Performance Cycle of less than one year, and no condition that is based upon continued employment or the passage of time alone shall provide for vesting of an Award more rapidly than in installments over three years from the date the Award is made, except (i) upon the death, disability or retirement of the Participant, in each case as specified in the Award agreement (ii) upon a Change in Control, as specified in Section 6 of the Plan, (iii) for Stock Options and SARs, (iv) for any Award paid in cash, and (v) for up to 8,400,000 (equal to 5% of authorized shares) shares of Common Stock that may be subject to Awards without any minimum vesting period.

Section 6. Change in Control Provisions.

- (a) Impact of Event. Notwithstanding any other provision of the Plan to the contrary, in the event of a Change in Control (as defined below in Section 6(b)):
- (i) If and to the extent that outstanding Awards, other than Incentive Awards, under the Plan (A) are assumed by the successor corporation (or affiliate thereto) or (B) are replaced with equity awards that preserve the existing value of the Awards at the time of the Change in Control and provide for subsequent payout in accordance with a vesting schedule and Performance Goals, as applicable, that are the same or more favorable to the Participants than the vesting schedule and Performance Goals applicable to the Awards, then all such Awards or such substitutes thereof shall remain outstanding and be governed by their respective terms and the provisions of the Plan subject to Section 6(a)(iv) below.
 - (ii) If and to the extent that outstanding Awards, other than Incentive Awards, under the Plan are not assumed or replaced in accordance with Section 6(a)(i) above, then upon the Change in Control the following treatment (referred to as “Change-in-Control Treatment”) shall apply to such Awards: (A) outstanding Options and SARs shall immediately vest and become exercisable; (B) the restrictions and other conditions applicable to outstanding Restricted Shares, Restricted Stock Units and Stock Awards, including vesting requirements, shall immediately lapse; and (C) such Awards shall be free of all restrictions and fully vested.
 - (iii) If and to the extent that outstanding Awards under the Plan are not assumed or replaced in accordance with Section 6(a)(i) above, then in connection with the application of the Change-in-Control Treatment set forth in Section 6(a)(ii) above, the Board may, in its sole discretion, provide for cancellation of such outstanding Awards at the time of the Change in Control in which case a payment of cash, property or a combination thereof shall be made to each such Participant upon the consummation of the Change in Control that is determined by the Board in its sole discretion and that is at least equal to the excess (if any) of the value of the consideration that would be received in such Change in Control by the holders of the securities of Kraft Foods Inc. relating to such Awards over the exercise or purchase price (if any) for such Awards.
 - (iv) If and to the extent that (A) outstanding Awards are assumed or replaced in accordance with Section 6(a)(i) above and (B) a Participant’s employment with, or performance of services for, the Company is terminated by the Company for any reasons other than Cause or, by such Participant eligible to participate in the Kraft Foods Inc. Change in Control Plan for Key Executives, for Good Reason, in each case, within the two-year period commencing on the Change in Control, then, as of the date of such Participant’s termination, the Change-in-Control Treatment set forth in Section 6(a)(ii) above shall apply to all assumed or replaced Awards of such Participant then outstanding.

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- (v) Outstanding Options or SARs that are assumed or replaced in accordance with Section 6(a)(i) may be exercised by the Participant in accordance with the applicable terms and conditions of such Award as set forth in the applicable award agreement or elsewhere; provided, however, that Options or SARs that become exercisable in accordance with Section 6(a)(iv) may be exercised until the expiration of the original full term of such Option or SAR notwithstanding the other original terms and conditions of such Award.
 - (vi) Any Incentive Awards relating to Performance Cycles completed prior to the year in which the Change in Control occurs that have been earned but not paid shall become immediately payable in cash upon the Change in Control. In addition, each Participant who has been awarded an Incentive Award for any current performance cycle shall be deemed to have earned a pro rata Incentive Award equal to the product of (A) such Participant's target award opportunity for such Performance Cycle, and (B) a fraction, the numerator of which is the number of full or partial months that have elapsed since the beginning of such Performance Cycle to the date on which the Change in Control occurs, and the denominator of which is the total number of months in such Performance Cycle, and such amount shall become immediately payable in cash upon the Change in Control.
 - (vii) Except as otherwise specified in an Award Agreement, any of the foregoing Change in Control provisions that change the timing of payment of an Award shall not be applicable to an Award subject to Section 409A of the Code. For the avoidance of doubt, the foregoing is applicable to Awards issued before and existing on the date this amendment to the Plan is being made as well as to Awards issued after such date.
- (b) Definition of Change in Control. "Change in Control" means the occurrence of any of the following events:
- (i) Acquisition of 20% or more of the outstanding voting securities of the Company by another entity or group; excluding, however, the following:
 - (A) any acquisition by the Company or any of its Affiliates;
 - (B) any acquisition by an employee benefit plan or related trust sponsored or maintained by the Company or any of its Affiliates; or
 - (C) any acquisition pursuant to a merger or consolidation described in Section 6(b)(iii);
 - (ii) During any consecutive 24-month period, persons who constitute the Board at the beginning of such period cease to constitute at least 50% of the Board; provided that each new Board member who is approved by a majority of the directors who began such 24 month period shall be deemed to have been a member of the Board at the beginning of such 24 month period;

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- (iii) The consummation of a merger or consolidation of the Company with another company, and the Company is not the surviving company; or, if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of the Company; excluding, however, a transaction pursuant to which all or substantially all of the individuals or entities who are the beneficial owners of the outstanding voting securities of the Company immediately prior to such transaction will beneficially own, directly or indirectly, more than 50% of the combined voting power of the outstanding securities entitled to vote generally in the election of directors (or similar persons) of the entity resulting from such transaction (including, without limitation, an entity which as a result of such transaction owns the Company either directly or indirectly) in substantially the same proportions relative to each other as their ownership, immediately prior to such transaction, of the outstanding voting securities; or
 - (iv) The consummation of a plan of complete liquidation of the Company or the sale or disposition of all or substantially all of the Company's assets, other than a sale or disposition pursuant to which all or substantially all of the individuals or entities who are the beneficial owners of the outstanding voting securities of the Company immediately prior to such transaction will beneficially own, directly or indirectly, more than 50% of the combined voting power of the outstanding securities entitled to vote generally in the election of directors (or similar persons) of the entity purchasing or acquiring the Company's assets in substantially the same proportions relative to each other as their ownership, immediately prior to such transaction, of the outstanding voting securities of the Company.

Section 7. Plan Amendment and Termination.

- (a) The Board may at any time and from time to time amend the Plan in whole or in part; provided, however, that if an amendment to the Plan (i) would materially increase the benefits accruing to the Participants, (ii) would materially increase the number of securities which may be issued under the Plan, (iii) would materially modify the requirements for participation in the Plan or (iv) must otherwise be approved by the shareholders of the Company in order to comply with applicable law or the rules of the New York Stock Exchange or, if the shares of Common Stock are not traded on the New York Stock Exchange, the principal national securities exchange upon which the shares of Common Stock are traded or quoted, then, such amendment will be subject to shareholder approval and will not be effective unless and until such approval has been obtained.

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- (b) Except in connection with a corporate transaction or event described in Section 4(b) of the Plan, the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Stock Options or the base price of outstanding SARs, or cancel outstanding Stock Options or SARs in exchange for cash, other Awards or Stock Options or SARs with an exercise price or base price, as applicable, that is less than the exercise price of the original Stock Option or base price of the original SAR, as applicable, without shareholder approval.
- (c) Subject to Section 7(b) hereof, the Board may amend the terms of any Award theretofore granted under the Plan prospectively or retroactively, but subject to Section 4(b) of the Plan, no such amendment shall impair the rights of any Participant without his or her consent. The Board may, in its discretion, terminate the Plan at any time. Termination of the Plan will not affect the rights of Participants or their successors under any Awards outstanding hereunder and not exercised in full on the date of termination.

Section 8. Payments and Payment Deferrals.

Payment of Awards may be in the form of cash, Common Stock, other Awards or combinations thereof as the Committee shall determine, and with such restrictions as it may impose. The Committee, either at the time of grant or by subsequent amendment, may require or permit deferral of the payment of Awards under such rules and procedures as it may establish; provided, however, that any Stock Options, SARs, and similar Other Stock-Based Awards that are not otherwise subject to Section 409A of the Code but would be subject to Section 409A of the Code if a deferral were permitted, shall not be subject to any deferral. It also may provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in Common Stock equivalents. Any deferral and related terms and conditions shall comply with Section 409A of the Code and any regulations or other guidance thereunder.

Section 9. Dividends and Dividend Equivalents.

The Committee may provide that any Awards under the Plan, other than Stock Options or SARs, earn dividends or dividend equivalents. Such dividends or dividend equivalents may be paid currently, except in the case of Other Stock-Based Awards in which any applicable Performance Goals have not been achieved, or may be credited to a Participant's Plan account. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares of Common Stock or Common Stock equivalents.

Section 10. Transferability.

Except as provided in the applicable Award agreement or otherwise required by law, Awards shall not be transferable or assignable other than by will or the laws of descent and distribution. In no event may any Award be transferred in exchange for consideration.

Section 11. Award Agreements.

Each Award under the Plan shall be evidenced by a written agreement (which may be electronic and need not be signed by the recipient unless otherwise specified by the Committee) that, subject to Section 5(d) of the Plan, sets forth the terms, conditions and limitations for each Award. Such terms may include, but are not limited to, the term of the Award, vesting and forfeiture provisions, and the provisions applicable in the event the Participant's employment terminates. Subject to Section 7 of the Plan, the Committee may amend an Award agreement, provided that, except as set forth in any Award agreement or as necessary to comply with applicable law or avoid adverse tax consequences to some or all Participants, no such amendment may materially and adversely affect an Award without the Participant's consent.

Section 12. Unfunded Status Plan.

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

Section 13. General Provisions.

- (a) The Committee may require each person acquiring shares of Common Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend that the Committee deems appropriate to reflect any restrictions on transfer.

All certificates for shares of Common Stock or other securities delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Commission, any stock exchange upon which the Common Stock is then listed, and any applicable Federal, state or foreign securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

- (b) Nothing contained in the Plan shall prevent the Company, or a subsidiary or an affiliate thereof, from adopting other or additional compensation arrangements for their respective employees.

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- (c) Neither the adoption of the Plan nor the granting of Awards under the Plan shall confer upon any employee any right to continued employment nor shall they interfere in any way with the right of the Company, or a subsidiary or an affiliate thereof, to terminate the employment of any employee at any time.
 - (d) No later than the date as of which an amount first becomes includible in the gross income of the Participant for income tax purposes with respect to any Award under the Plan, the Participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind which are required by law or applicable regulation to be withheld with respect to such amount. Unless otherwise determined by the Committee, withholding obligations arising from an Award may be settled with Common Stock, including Common Stock that is part of, or is received upon exercise or conversion of, the Award that gives rise to the withholding requirement. In no event shall the Fair Market Value of the shares of Common Stock to be withheld and delivered pursuant to this Section 13(d) to satisfy applicable withholding taxes in connection with the benefit exceed the minimum amount of taxes required to be withheld. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company, its subsidiaries and its affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Participant. The Committee may establish such procedures as it deems appropriate, including the making of irrevocable elections, for the settling of withholding obligations with Common Stock.
 - (e) The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in an Award, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the Federal or state courts of the Commonwealth of Virginia, to resolve any and all issues that may arise out of or relate to the Plan or any related Award.
 - (f) All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

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- (g) The Plan and all Awards made hereunder shall be interpreted, construed and operated to reflect the intent of the Company that all aspects of the Plan and the Awards shall be interpreted either to be exempt from the provisions of Section 409A of the Code or, to the extent subject to Section 409A of the Code, comply with Section 409A of the Code and any regulations and other guidance thereunder. This Plan may be amended at any time, without the consent of any party, to avoid the application of Section 409A of the Code in a particular circumstance or that is necessary or desirable to satisfy any of the requirements under Section 409A of the Code, but the Company shall not be under any obligation to make any such amendment. Nothing in the Plan shall provide a basis for any person to take action against the Company or any affiliate based on matters covered by Section 409A of the Code, including the tax treatment of any amount paid or Award made under the Plan, and neither the Company nor any of its affiliates shall under any circumstances have any liability to any participant or his estate for any taxes, penalties or interest due on amounts paid or payable under the Plan, including taxes, penalties or interest imposed under Section 409A of the Code.
- (h) If any provision of the Plan is held invalid or unenforceable, the invalidity or unenforceability shall not affect the remaining parts of the Plan, and the Plan shall be enforced and construed as if such provision had not been included.
- (i) The Plan was approved by stockholders and became effective on May 20, 2009. No Awards shall be made after May 20, 2019, provided that any Awards granted prior to that date may extend beyond it.

**KRAFT FOODS INC.
AMENDED AND RESTATED 2005 PERFORMANCE INCENTIVE PLAN**

**RESTRICTED STOCK AGREEMENT
FOR KRAFT FOODS COMMON STOCK**

KRAFT FOODS INC., a Virginia corporation (the “Company”), hereby grants to the employee (the “Employee”) named in the Award Statement (the “Award Statement”) attached hereto, as of the date set forth in the Award Statement (the “Award Date”) pursuant to the provisions of the Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan (the “Plan”), a Restricted Stock Award (the “Award”) with respect to the number of shares (the “Restricted Shares”) of the Common Stock of the Company (“Common Stock”) upon and subject to the restrictions, terms and conditions set forth below, in the Award Statement and in the Plan. Capitalized terms not defined in this Restricted Stock Agreement (the “Agreement”) shall have the meanings specified in the Plan.

1. Restrictions. Subject to paragraph 2 below, the restrictions on the Restricted Shares shall lapse and the Restricted Shares shall vest on the date set forth in the Restricted Stock Award section of the Award Statement (the “Vesting Date”), provided that the Employee remains an employee of the Kraft Foods Group (as defined below in paragraph 13) during the entire period (the “Restriction Period”) commencing on the Award Date set forth in the Award Statement and ending on the Vesting Date.

2. Termination of Employment During Restriction Period. In the event of the termination of the Employee’s employment with the Kraft Foods Group prior to the Vesting Date other than by death, Disability, or Normal Retirement (as defined below in paragraph 13) or unless it is otherwise determined by (or pursuant to authority granted by) the Committee administering the Plan (the “Committee”), the Restricted Shares shall not vest and the Employee shall forfeit all rights to the Restricted Shares. Any Restricted Shares that are forfeited shall be transferred directly to the Company. If death, Disability, or Normal Retirement of the Employee occurs prior to the Vesting Date, the restrictions on the Restricted Shares shall immediately lapse and the Restricted Shares shall become fully vested on such date of death, Disability, or Normal Retirement.

3. Voting and Dividend Rights. During the Restriction Period, the Employee shall have the right to vote the Restricted Shares and to receive any dividends and other distributions with respect to the Restricted Shares, as paid, less applicable withholding taxes (it being understood that such dividends will generally be taxable as ordinary compensation income during such Restriction Period) unless and until such Restricted Shares are forfeited pursuant to paragraph 2 hereof.

4. Custody and Delivery of Certificates Representing Shares. The shares of Common Stock subject to the Award may be held by a custodian in book entry form with the restrictions on such shares duly noted or, alternatively, the Company may hold the certificate or certificates representing such shares, in either case until the Award shall have vested, in whole or in part, pursuant to paragraphs 1 and 2 hereof. As soon as practicable after the Restricted Shares shall have vested pursuant to paragraphs 1 and 2 hereof, subject to paragraph 7 hereof, the restrictions shall be removed from those of such shares that are held in book entry form, and the Company shall deliver to the Employee any certificate or certificates representing those of such shares that are held by the Company and destroy or return to the Employee the stock power or powers relating to such shares. If such stock power or powers also relate to unvested shares, the Company may require, as a condition precedent to the delivery of any certificate pursuant to this paragraph 4, the execution and delivery to the Company of one or more irrevocable stock powers relating to such unvested shares.

5. Transfer Restrictions. This Award and the Restricted Shares (until they become unrestricted pursuant to the terms hereof) are non-transferable and may not be assigned, hypothecated or otherwise pledged and shall not be subject to execution, attachment or similar process. Upon any attempt to effect any such disposition, or upon the levy of any such process, the Award shall immediately become null and void and the Restricted Shares shall be forfeited.

6. Withholding Taxes. The Company is authorized to satisfy the withholding taxes arising from the granting, vesting or payment of this Award, as the case may be, by deducting the number of Restricted Shares having an aggregate value equal to the amount of withholding taxes due from the total number of Restricted Shares awarded, vested, paid or otherwise becoming subject to current taxation. Further, the Company is authorized to satisfy the withholding taxes arising from the granting or vesting of this Award, as the case may be, by, as agent for the Employee, withholding the number of Restricted Shares having an aggregate value in the amount of withholding taxes due, and instructing the Restricted Stock Award administrator to sell such Restricted Shares on the open market as soon as practicable, and remitting the proceeds to the appropriate governmental authorities, except to the extent that such a sale would violate any Federal Securities law or other applicable law. The Company is also authorized to satisfy the withholding taxes arising from the granting or vesting of this Award, or hypothetical withholding tax amounts if the Employee is covered under a Company tax equalization policy, as the case may be, by the remittance of the required amounts from any proceeds realized upon the open-market sale of vested Common Stock by the Employee. Furthermore, the Company is authorized to satisfy the withholding taxes arising from the granting or vesting of this Award, as the case may be, through any other method established by the Company. Restricted Shares deducted from this Award in satisfaction of withholding tax requirements shall be valued at the Fair Market Value of the Common Stock received in payment of vested Restricted Shares on the date as of which the amount giving rise to the withholding requirement first became includible in the gross income of the Employee under applicable tax laws. If the Employee is covered by a Company tax equalization policy, the Employee also agrees to pay to the Company any additional tax obligation calculated and paid in accordance with such tax equalization policy. If the Employee becomes subject to tax in more than one jurisdiction between the date of grant and the date of any relevant taxable event, the Employee acknowledges that the Company and/or the Employee's employer (or former employer, as applicable) may be required to withhold or account for (including report) taxes in more than one jurisdiction. To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, in accordance with Section 13(d) of the Plan.

7. Death of Employee. If any of the Restricted Shares shall vest upon the death of the Employee, they shall be registered in the name of the estate of the Employee.

8. Original Issue or Transfer Taxes. The Company shall pay all original issue or transfer taxes and all fees and expenses incident to such delivery, except as otherwise provided in paragraph 6.

9. Successors. Whenever the word "Employee" is used herein under circumstances such that the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom the Restricted Shares may be transferred pursuant to this Agreement, it shall be deemed to include such person or persons. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall acquire any rights hereunder in accordance with this Agreement, the Award Statement or the Plan.

10. Award Confers No Rights to Continued Employment - Nature of the Grant. Nothing contained in the Plan or this Agreement shall give the Employee the right to be retained in the employment of any member of the Kraft Foods Group or affect the right of any such employer to terminate the Employee. The adoption and maintenance of the Plan shall not constitute an inducement to, or condition of, the employment of the Employee. Further, the Employee acknowledges and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the grant of Restricted Shares is voluntary and occasional and does not create any contractual or other right to receive future grants of awards, or benefits in lieu of awards, even if awards have been granted repeatedly in the past;

(c) all decisions with respect to future Awards, if any, will be at the sole discretion of the Board of Directors of the Company or the Committee;

(d) the Employee is voluntarily participating in the Plan;

(e) the Restricted Shares are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to any member of the Kraft Foods Group, and which are outside the scope of the Employee's employment contract, if any;

(f) the Restricted Shares are not intended to replace any pension rights or compensation;

(g) the Restricted Shares are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for any member of the Kraft Foods Group;

(h) the Restricted Shares grant and the Employee's participation in the Plan will not be interpreted to form an employment contract or relationship with any member of the Kraft Foods Group;

(i) the future value of the underlying shares of Common Stock is unknown and cannot be predicted with certainty;

(j) if the Employee's Restricted Shares vest and the Employee obtains shares of Common Stock, the value of those shares of Common Stock acquired upon vesting may increase or decrease in value;

(k) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Shares resulting from the termination of the Employee's employment by the Company or the employer, and in consideration of the award of the Restricted Shares to which the Employee is otherwise not entitled, the Employee irrevocably agrees never to institute any claim against the Company or the employer, waives his or her ability, if any, to bring any such claim, and releases the Company and the employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the Employee shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim;

(l) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Employee's participation in the Plan, or the Employees' acquisition or sale of the underlying shares of Common Stock;

(m) the Employee is hereby advised to consult with the Employee's own personal tax, legal and financial advisors regarding the Employee's participation in the Plan before taking any action related to the Plan; and

(n) the Restricted Shares and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

11. Interpretation. The terms and provisions of the Plan (a copy of which will be furnished to the Employee upon written request to the Office of the Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, Illinois 60093) are incorporated herein by reference. To the extent any provision of this Agreement is inconsistent or in conflict with any term or provision of the Plan, the Plan shall govern. The Committee shall have the right to resolve all questions which may arise in connection with the Award or this Agreement. Any interpretation, determination or other action made or taken by the Committee regarding the Plan or this Agreement shall be final, binding and conclusive.

12. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Virginia, U.S.A., without regard to choice of laws principles thereof.

13. Miscellaneous Definitions. For purposes of this Agreement, (a) the term “Disability” means permanent and total disability as determined under procedures established by the Company for purposes of the Plan, and (b) the term “Normal Retirement” means retirement from active employment under a pension plan of the Kraft Foods Group or under an employment contract with any member of the Kraft Foods Group, on or after the date specified as the normal retirement age in the pension plan or employment contract, if any, under which the Employee is at that time accruing pension benefits for his or her current service (or, in the absence of a specified normal retirement age, the age at which pension benefits under such plan or contract become payable without reduction for early commencement and without any requirement of a particular period of prior service). In any case in which (i) the meaning of “Normal Retirement” is uncertain under the definition contained in the prior sentence or (ii) a termination of employment at or after age 65 would not otherwise constitute “Normal Retirement,” an Employee’s termination of employment shall be treated as a “Normal Retirement” under such circumstances as the Committee, in its sole discretion, deems equivalent to retirement. “Kraft Foods Group” means Kraft Foods Inc. and each of its subsidiaries and affiliates. For purposes of this Agreement, (x) a “subsidiary” includes only any company in which the applicable entity, directly or indirectly, has a beneficial ownership interest of greater than 50 percent and (y) an “affiliate” includes only any company that (A) has a beneficial ownership interest, directly or indirectly, in the applicable entity of greater than 50 percent or (B) is under common control with the applicable entity through a parent company that, directly or indirectly, has a beneficial ownership interest of greater than 50 percent in both the applicable entity and the affiliate.

14. Adjustments. In the event of any merger, share exchange, reorganization, consolidation, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants or other similar transaction or event affecting the Common Stock after the date of this Award, the Board of Directors of the Company or the Committee shall make adjustments to the number and kind of shares of stock subject to this Award, including, but not limited to, the substitution of equity interests in other entities involved in such transactions, to provide for cash payments in lieu of restricted or unrestricted shares, and to determine whether continued employment with any entity resulting from such a transaction will or will not be treated as continued employment by the Kraft Foods Group, in each case subject to any Board or Committee action specifically addressing any such adjustments, cash payments, or continued employment treatment.

15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means or to request the Employee’s consent to participate in the Plan by electronic means. The Employee hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

16. Agreement Severable. The provisions of this Agreement are severable and if any one or more provisions are deemed to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nonetheless be binding and enforceable.

17. Headings. Headings of paragraphs and sections used in this Agreement are for convenience only and are not part of this Agreement, and must not be used in construing it.

18. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Employee's participation in the Plan and on the Restricted Shares to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Employee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

IN WITNESS WHEREOF, this Restricted Stock Agreement has been duly executed as of _____.

KRAFT FOODS INC.

By: _____
Carol J. Ward
Vice President and Corporate Secretary

KRAFT FOODS INC.
AMENDED AND RESTATED 2005 PERFORMANCE INCENTIVE PLAN
NON-QUALIFIED US STOCK OPTION AWARD AGREEMENT

KRAFT FOODS INC., a Virginia corporation (the “Company”), hereby grants to the employee identified in the Award Statement (the “Optionee” identified in the “Award Statement”) attached hereto under the Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan (the “Plan”) a non-qualified stock option (the “Option”). The Option entitles the Optionee to exercise up to the aggregate number of shares set forth in the Award Statement (the “Option Shares”) of the Company’s Common Stock, at the Grant Price per share set forth in the Award Statement (the “Grant Price”). Capitalized terms not otherwise defined in this Non-Qualified US Stock Option Award Agreement (the “Agreement”) shall have the meaning set forth in the Plan. The Option is subject to the following terms and conditions:

1. Vesting. Prior to the satisfaction of the Vesting Requirements set forth in the Schedule in the Award Statement (the “Schedule”), the Option Shares may not be exercised except as provided in paragraph 2 below.

2. Vesting Upon Termination of Employment. In the event of the termination of the Optionee’s employment with the Kraft Foods Group (as defined below in paragraph 12) prior to satisfaction of the Vesting Requirements other than by reason of Early Retirement (as defined below in paragraph 12) occurring after December 31 of the same year as the date of grant of the Option, Normal Retirement (as defined below in paragraph 12), death or Disability (as defined below in paragraph 12), or as otherwise determined by (or pursuant to authority granted by) the Committee administering the Plan, this Option shall not be exercisable with respect to any of the Option Shares set forth in the Award Statement. If death or Disability of the Optionee occurs prior to satisfaction of the Vesting Requirements, this Option shall become immediately exercisable for 100% of the Option Shares set forth in the Award Statement. If the Optionee’s employment with the Kraft Foods Group is terminated by reason of Normal Retirement, or by Early Retirement occurring after December 31 of the same year as the date of grant of the Option, the Option Shares shall continue to become exercisable as set forth on the Schedule as if such Optionee’s employment had not terminated.

3. Exercisability Upon Termination of Employment. During the period commencing on the first date that the Vesting Requirements are satisfied (or, such earlier date determined in accordance with Paragraph 2) until and including the Expiration Date set forth in the Schedule, this Option may be exercised in whole or in part with respect to such Option Shares, subject to the following provisions:

(a) In the event that the Optionee’s employment is terminated by reason of Early Retirement occurring after December 31 of the same year as the date of grant of the Option, Normal Retirement, death or Disability, such Option Shares may be exercised on or prior to the Expiration Date;

(b) If employment is terminated by the Optionee (other than by Early Retirement occurring after December 31 of the same year as the date of grant of the Option, death, Disability or Normal Retirement), such Option Shares may be exercised for a period of 30 days from the effective date of termination;

(c) If, other than by death, Disability, Normal Retirement, or Early Retirement occurring after December 31 of the same year as the date of grant of the Option, the Optionee’s employment is terminated by the Company, a subsidiary or affiliate without cause, such Option Shares may be exercised for a period of 12 months following such termination; provided, however, if the Optionee shall die within such 12-month period, such Option Shares may be exercised for a period of 12 months from the date of death of the Optionee; and

(d) If the Optionee's employment is involuntarily suspended or terminated for cause, no Option Shares may be exercised during the period of suspension, or following such termination of employment.

No provision of this paragraph 3 shall permit the exercise of any Option Shares after the Expiration Date. For purposes of this Agreement, the Optionee's employment shall be deemed to be terminated (i) when he or she is no longer actively employed by the Kraft Foods Group, and (ii) when he or she is no longer actively employed by a corporation, or a parent or subsidiary thereof, substituting a new option for this Option (or assuming this Option) in connection with a merger, consolidation, acquisition of property or stock, separation, split-up, reorganization, liquidation or similar transaction. The Optionee shall not be considered actively employed during any period for which he or she is receiving, or is eligible to receive, salary continuation, notice period payments, or other benefits under the Kraft Foods Inc. Severance Pay Plan, or any similar plan maintained by the Kraft Foods Group or through other such arrangements that may be entered into that give rise to separation or notice pay, except in any case in which the Optionee is eligible for Normal Retirement or Early Retirement upon the expiration of salary continuation or other benefits. Leaves of absence shall not constitute a termination of employment for purposes of this Agreement. Notwithstanding the foregoing provisions and unless otherwise determined by the Company, this Option may only be exercised on a day that the New York Stock Exchange (the "Exchange") is open. Accordingly, if the Expiration Date is a day the Exchange is closed, the Expiration Date shall be the immediately preceding day on which the Exchange is open.

4. Exercise of Option and Withholding Taxes. This Option may be exercised only in accordance with the procedures and limitations, set forth in the Company's Equity Awards Plan Guide, as amended from time to time (the "Methods of Exercise").

Regardless of any action the Company or the Optionee's employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding ("Tax-Related Items"), the Optionee hereby acknowledges that the ultimate liability for all Tax-Related Items legally due by the Optionee is and remains the Optionee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Optionee further acknowledges that the Company and/or the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option grant, including the grant, vesting or exercise of the Option, the subsequent sale of Option Shares acquired pursuant to such exercise and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate Optionee's liability for Tax-Related Items or achieve any particular tax result. If the Optionee becomes subject to tax in more than one jurisdiction (including jurisdictions outside the United States) between the date of grant and the date of any relevant taxable event, the Optionee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for (including report) Tax-Related Items in more than one jurisdiction.

The Optionee acknowledges and agrees that the Company shall not be required to deliver the Option Shares being exercised upon any exercise of this Option unless it has received payment in a form acceptable to the Company for all applicable Tax-Related Items, as well as amounts due the Company as "theoretical taxes" pursuant to the then-current international assignment and tax equalization policies and procedures of the Kraft Foods Group, or arrangements satisfactory to the Company for the payment thereof have been made.

In this regard, Optionee authorizes the Company and/or the Employer, in their sole discretion and without any notice or further authorization by the Optionee, to withhold all applicable Tax-Related Items legally due by the Optionee and any theoretical taxes from Optionee's wages or other cash compensation paid by the Company and/or the Employer or from proceeds of the sale of Option Shares. Alternatively, or in addition, the Company may instruct the broker whom it has selected for this purpose (on the Optionee's behalf and at the Optionee's direction pursuant to this authorization) to sell the Option Shares that Optionee acquires to meet the Tax-Related Items withholding obligation and any theoretical taxes. In addition, unless otherwise determined by the Committee, Tax-Related Items or theoretical taxes may be paid with outstanding shares of the Company's Common Stock, such shares to be valued at Fair Market Value on the exercise date. Finally, the Optionee shall pay to the Company or the Employer any amount of Tax-Related Items and theoretical taxes that the Company or the Employer may be required to withhold as a result of the Optionee's participation in the Plan or the Optionee's exercise of Option Shares that cannot be satisfied by the means previously described.

5. Cash-Out of Option. The Committee may elect to cash out all or a portion of the Option Shares to be exercised pursuant to any Method of Exercise by paying the Optionee an amount in cash or Common Stock, or both, equal to the Fair Market Value of such shares on the exercise date less the purchase price for such shares.

6. Transfer Restrictions. Unless otherwise required by law, this Option is not transferable by the Optionee in any manner other than by will or the laws of descent and distribution and is exercisable during the Optionee's lifetime only by the Optionee. The terms of the Plan and this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7. Adjustments. In the event of any merger, share exchange, reorganization, consolidation, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants or other similar transaction or event affecting the Common Stock after the date of this Award, the Board of Directors of the Company or the Committee may make adjustments to the terms and provisions of this Award (including, without limiting the generality of the foregoing, terms and provisions relating to the Grant Price and the number and kind of shares subject to this Option) including, but not limited to, the substitution of equity interests in other entities involved in such transactions, to provide for cash payments in lieu of the Option, and to determine whether continued employment with any entity resulting from such transaction or event will or will not be treated as a continued employment with the Kraft Foods Group, in each case, subject to any Board of Director or Committee action specifically addressing any such adjustments, cash payments or continued employment treatment.

8. Successors. Whenever the word "Optionee" is used herein under circumstances such that the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom this Option may be transferred pursuant to this Agreement, it shall be deemed to include such person or persons. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall acquire any rights hereunder in accordance with this Agreement, the Award Statement or the Plan.

9. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Virginia, U.S.A., without regard to choice of laws principles thereof.

10. Award Confers No Rights to Continued Employment - Nature of the Grant. Nothing contained in the Plan or this Agreement shall give any employee the right to be retained in the employment of any member of the Kraft Foods Group or affect the right of any such employer to terminate any employee. The adoption and maintenance of the Plan shall not constitute an inducement to, or condition of, the employment of any employee. Further, the Optionee acknowledges and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted repeatedly in the past;

(c) all decisions with respect to future option grants, if any, will be at the sole discretion of the Board of Directors of the Company or the Committee;

(d) the Optionee is voluntarily participating in the Plan;

(e) the Option and the shares of Common Stock subject to the Option are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and which is outside the scope of the Optionee's employment contract, if any;

(f) the Option is not intended to replace any pension rights or compensation;

(g) the Option and the shares of Common Stock subject to the Option are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or the Employer;

(h) the Option grant and the Optionee's participation in the Plan will not be interpreted to form an employment contract or relationship with any member of the Kraft Foods Group;

(i) the future value of the underlying shares of Common Stock is unknown and cannot be predicted with certainty;

(j) if the underlying shares of Common Stock do not increase in value, the Option will have no value;

(k) if the Optionee exercises the Option and obtains shares of Common Stock, the value of those shares of Common Stock acquired upon exercise may increase or decrease in value, even below the Grant Price;

(l) no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from the termination of Optionee's employment by the Company or the Employer, and in consideration of the grant of the Option to which the Optionee is otherwise not entitled, the Optionee irrevocably agrees never to institute any claim against the Company or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the Optionee shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim;

(m) in the event of termination of the Optionee's employment, the Optionee's right to exercise the Option after termination of employment, if any, will be measured by the date of termination of the Optionee's active employment and will not be extended by any notice period mandated under local law;

(n) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Optionee's participation in the Plan, or the Optionee's acquisition or sale of the underlying shares of Common Stock;

(o) the Optionee is hereby advised to consult with the Optionee's own personal tax, legal and financial advisors regarding the Optionee's participation in the Plan before taking any action related to the Plan;

(p) The Option is designated as not constituting an Incentive Stock Option. This Agreement shall be interpreted and treated consistently with such designation; and

(q) the Option and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

11. Interpretation. The terms and provisions of the Plan (a copy of which will be furnished to the Optionee upon written request to the Office of the Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, Illinois 60093) are incorporated herein by reference. To the extent any provision in this Agreement is inconsistent or in conflict with any term or provision of the Plan, the Plan shall govern. The Committee shall have the right to resolve all questions which may arise in connection with the Award or this Agreement, including whether an Optionee is no longer actively employed and any interpretation, determination or other action made or taken by the Committee regarding the Plan or this Agreement shall be final, binding and conclusive.

12. Miscellaneous Definitions. For the purposes of this Agreement, the term "Disability" means permanent and total disability as determined under the procedures established by the Company for purposes of the Plan and the term "Normal Retirement" means retirement from active employment under a pension plan of the Kraft Foods Group, or under an employment contract with any member of the Kraft Foods Group, on or after the date specified as normal retirement age in the pension plan or employment contract, if any, under which the Optionee is at that time accruing pension benefits for his or her current service (or, in the absence of a specified normal retirement age, the age at which pension benefits under such plan or contract become payable without reduction for early commencement and without any requirement of a particular period of prior service). For the purposes of this Agreement, "Early Retirement" means retirement from active employment other than Normal Retirement, as determined by the Committee, in its sole discretion. As used herein, "Kraft Foods Group" means Kraft Foods Inc. and each of its subsidiaries and affiliates. For purposes of this Agreement, (x) a "subsidiary" includes only any company in which the applicable entity, directly or indirectly, has a beneficial ownership interest of greater than 50 percent and (y) an "affiliate" includes only any company that (A) has a beneficial ownership interest, directly or indirectly, in the applicable entity of greater than 50 percent or (B) is under common control with the applicable entity through a parent company that, directly or indirectly, has a beneficial ownership interest of greater than 50 percent in both the applicable entity and the affiliate.

13. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means or to request the Optionee's consent to participate in the Plan by electronic means. The Optionee hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

14. Agreement Severable. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

15. Headings. Headings of paragraphs and sections used in this Agreement are for convenience only and are not part of this Agreement, and must not be used in construing it.

16. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Optionee's participation in the Plan, on the Option, and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Optionee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

IN WITNESS WHEREOF, this Non-Qualified US Stock Option Award Agreement has been granted as of _____.

KRAFT FOODS INC.

By: _____
Carol J. Ward
Vice President and Corporate Secretary

KRAFT FOODS INC.

CHANGE IN CONTROL PLAN FOR KEY EXECUTIVES

ADOPTED: APRIL 24, 2007

AMENDED: DECEMBER 31, 2009

KRAFT FOODS INC.

CHANGE IN CONTROL PLAN FOR KEY EXECUTIVES

1. Definitions

For purposes of the Change in Control Plan for Key Executives, the following terms are defined as set forth below (unless the context clearly indicates otherwise):

Affiliate	Any entity controlled by, controlling or under common control with the Company.
Annual Base Salary	Twelve times the higher of (i) the highest monthly base salary paid or payable to the Participant by the Company and its Affiliates in respect of the twelve-month period immediately preceding the month in which the Change in Control occurs, or (ii) the highest monthly base salary in effect at any time thereafter, in each case including any base salary that has been earned and deferred.
Board	The Board of Directors of the Company.
Annual Incentive Award Target	The annual incentive award that the Participant would receive in a fiscal year under the Management Incentive Plan or any comparable annual incentive plan if the target goals are achieved.
Cause	As defined in Section 3.2(b)(i) of this Plan.
Change in Control	<p>“Change in Control” means the occurrence of any of the following events: (A) Acquisition of 20% or more of the outstanding voting securities of the Company by another entity or group; excluding, however, the following:</p> <ol style="list-style-type: none">(1) any acquisition by the Company or any of its Affiliates;(2) any acquisition by an employee benefit plan or related trust sponsored or maintained by the Company or any of its Affiliates; or(3) any acquisition pursuant to a merger or consolidation described in clause (C) of this definition. <p>(B) During any consecutive 24 month period, persons who constitute the Board at the beginning of such period cease to constitute at least 50% of the Board; provided that each new Board member who is approved by a majority of the directors who began such 24 month period shall be deemed to have been a member of the Board at the beginning of such 24 month period;</p> <p>(C) The consummation of a merger or consolidation of the Company with another company, and the Company is not the surviving company; or, if after such transaction, the other entity owns, directly or indirectly, 50% or more of the outstanding voting securities of the Company; excluding, however, a transaction pursuant to which all or substantially all of the individuals or entities who are the beneficial owners of the outstanding voting securities of the Company immediately prior to such transaction will beneficially own, directly or indirectly, more than 50% of the combined voting power of the outstanding securities entitled to vote generally in the election of directors (or similar persons) of the entity resulting from such transaction (including, without limitation, an entity which as a result of such transaction owns the Company either directly or indirectly) in substantially the same proportions relative to each other as their ownership, immediately prior to such transaction, of the outstanding voting securities of the Company; or</p>

(D) The consummation of a plan of complete liquidation of the Company or the sale or disposition of all or substantially all of the Company's assets, other than a sale or disposition pursuant to which all or substantially all of the individuals or entities who are the beneficial owners of the outstanding voting securities of the Company immediately prior to such transaction will beneficially own, directly or indirectly, more than 50% of the combined voting power of the outstanding securities entitled to vote generally in the election of directors (or similar persons) of the entity purchasing or acquiring the Company's assets in substantially the same proportions relative to each other as their ownership, immediately prior to such transaction, of the outstanding voting securities of the Company.

Code

The Internal Revenue Code of 1986, as amended from time to time.

Committee

The Board's Human Resources and Compensation Committee or a subcommittee thereof, any successor thereto or such other committee or subcommittee as may be designated by the Board to administer the Plan.

Company

Kraft Foods Inc., a corporation organized under the laws of the Commonwealth of Virginia, or any successor thereto.

Date of Termination

If the Participant's employment is terminated by:

- (i) The Employer for Cause or by the Participant for Good Reason, the Date of Termination shall be the date on which the Participant or the Employer, as the case may be, receives the Notice of Termination (as described in Section 3.2(c)) or any later date specified therein, as the case may be.
- (ii) The Employer other than for Cause, death or Disability, the Date of Termination shall be the date on which the Employer notifies the Participant of such termination.
- (iii) Reason of death or Disability, the Date of Termination shall be the date of death of the Participant or the Disability Effective Date, as the case may be.

Notwithstanding the above, in the event that the Date of Termination as determined above is not the last date on which the Participant is employed by the Employer, the Participant's Date of Termination shall be the last date on which the Participant is employed by the Employer.

Disability

As defined in Section 3.2(b) (ii).

Disability Effective Date	As defined in Section 3.2(b) (ii).
Effective Date	April 24, 2007. The Plan is being amended effective December 31, 2009.
Employer	The Company or any of its Affiliates.
Excise Tax	The excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.
Good Reason	As defined in Section 3.2(a).
Key Executive	An employee who is employed on a regular basis by the Employer in a salary band D or more senior position.
Long-Term Incentive Plan Award Target	The long-term award that the Participant would receive during a performance cycle under the Long-Term Incentive Plan or any comparable incentive plan if the target goals specified under the Long-Term Incentive Plan or such annual incentive plan are achieved.
Net After-Tax Benefit	The present value (as determined in accordance with Sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Code) of a Participant's Payments less any Federal, state, and local income taxes and any Excise Tax payable on such amount.
Non-Competition Agreement	The agreement of a Participant, not to, without the Company's prior written consent, engage in any activity or provide any services, whether as a director, manager, supervisor, employee, adviser, consultant or otherwise, for a period of up to one (1) year following the Participant's Date of Termination, with a company that is substantially competitive with a business conducted by the Company and its Affiliates.
Non-Solicitation Agreement	The agreement of a Participant that he or she will not solicit, directly or indirectly, any employee of the Company or an Affiliate, or a surviving entity following a Change in Control, to leave the Company or an Affiliate and to work for any other entity, whether as an employee, independent contractor or in any other capacity, for a period of up to one (1) year following the Participant's Date of Termination.
Non-U.S. Executive	A Key Executive whose designated home country, for purposes of the Employer's personnel and benefits programs and policies, is other than the United States.
Participant	A Key Executive who meets the eligibility requirements of Section 2.1; provided, however, that any Non-U.S. Executive who, under the laws of his or her designated home country or the legally enforceable programs or policies of the Employer in such designated home country, is entitled to receive, in the event of termination of employment (whether or not by reason of a Change in Control), separation benefits at least equal in aggregate amount to the Separation Pay prescribed under Section 3.3(b), of this Plan shall not be considered a Participant for the purposes of this Plan.

Payment	Any payment or distribution in the nature of compensation (within the meaning of Section 280G (b) (2) of the Code) to or for the benefit of the Participant, whether paid or payable pursuant to this Plan or otherwise.
Plan	The Kraft Foods Inc. Change in Control Plan for Key Executives, as set forth herein.
Plan Administrator	The third-party accounting, actuarial, consulting or similar firm retained by the Company prior to a Change in Control to administer this Plan following a Change in Control.
Separation Benefits	The amounts and benefits payable or required to be provided in accordance with Section 3.3 of this Plan.
Separation Pay	The amount or amounts payable in accordance with Section 3.3(b) of this Plan.
U.S. Executive	A Participant whose designated home country, for purposes of the Employer's personnel and benefits programs and policies, is the United States.

2. Eligibility

2.1. Participation. Except as set forth in the definition of Participant above, each employee who is a Key Executive on the Effective Date shall be a Participant in the Plan effective as of the Effective Date and each other employee shall become a Participant in the Plan effective as of the date of the employee's promotion or hire as a Key Executive.

2.2. Duration of Participation. A Participant shall cease to be a Participant in the Plan if (i) the Participant terminates employment with the Employer under circumstances not entitling him or her to Separation Benefits or (ii) the Participant otherwise ceases to be a Key Executive, provided that no Key Executive may be so removed from Plan participation in connection with or in anticipation of a Change in Control that actually occurs. However, a Participant who is entitled, as a result of ceasing to be a Key Executive of the Employer, to receive benefits under the Plan shall remain a Participant in the Plan until the amounts and benefits payable under the Plan have been paid or provided to the Participant in full.

3. Separation Benefits

3.1. Right to Separation Benefits. A Participant shall be entitled to receive from the Employer the Separation Benefits as provided in Section 3.3, if a Change in Control has occurred and the Participant's employment by the Employer is terminated under circumstances specified in Section 3.2(a), whether the termination is voluntary or involuntary, and if (i) such termination occurs after such Change in Control and on or before the second anniversary thereof, or (ii) such termination is reasonably demonstrated by the Participant to have been initiated by a third party that has taken steps reasonably calculated to effect a Change in Control or otherwise to have arisen in connection with or in anticipation of such Change in Control and such Change in Control occurs within 90 days of the termination. Termination of employment shall have the same meaning as "separation from service" within the meaning of Treasury Regulation § 1.409A-1(h).

3.2. Termination of Employment.

- (a) ***Terminations which give rise to Separation Benefits under this Plan.*** The circumstances specified in this Section 3.2(a) are any termination of employment with the Employer by action of the Company or any of its Affiliates or by a Participant for Good Reason, other than as set forth in Section 3.2(b) below. For purposes of this Plan, “Good Reason” shall mean:
- (i) the assignment to the Participant of any duties substantially inconsistent with the Participant’s position, authority, duties or responsibilities in effect immediately prior to the Change in Control, or any other action by the Company or the Employer that results in a marked diminution in the Participant’s position, authority, duties or responsibilities, excluding for this purpose:
 - a. changes in the Participant’s position, authority, duties or responsibilities which are consistent with the Participant’s education, experience, etc.;
 - b. an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company and/or the Employer promptly after receipt of notice thereof given by the Participant;
 - (ii) any material reduction in the Participant’s base salary, annual incentive or long-term incentive opportunity as in effect immediately prior to the Change in Control;
 - (iii) the Employer requiring the Participant to be based at any office or location other than any other location which does not extend the Participant’s home to work location commute as of the time of the Change in Control by more than 50 miles;
 - (iv) the Employer requiring the Participant to travel on business to a substantially greater extent than required immediately prior to the Change in Control; or
 - (v) any failure by the Company to require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Plan in the same manner and to the same extent that the Company or the Employer would be required to perform it if no such succession had taken place, as required by Article 5.

The Participant must notify the Company of any event purporting to constitute Good Reason within 45 days following the Participant’s knowledge of its existence, and the Company or the Employer shall have 20 days in which to correct or remove such Good Reason, or such event shall not constitute Good Reason.

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- (b) **Terminations which DO NOT give rise to Separation Benefits under this Plan.** Notwithstanding Section 3.2(a), if a Participant's employment is terminated for Cause or Disability (as those terms are defined below) or as a result of the Participant's death, or the Participant terminates his or her own employment other than for Good Reason, the Participant shall not be entitled to Separation Benefits under the Plan, regardless of the occurrence of a Change in Control.
- (i) A termination for "Cause" shall have occurred where a Participant is terminated because of:
- a. Continued failure to substantially perform the Participant's job's duties (other than resulting from incapacity due to disability);
 - b. Gross negligence, dishonesty, or violation of any reasonable rule or regulation of the Company or the Employer where the violation results in significant damage to the Company or the Employer; or
 - c. Engaging in other conduct which adversely reflects on the Company or the Employer in any material respect.
- (ii) A termination upon Disability shall have occurred where a Participant is absent from the Participant's duties with the Employer on a full-time basis for 180 consecutive days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Participant or the Participant's legal representative. In such event, the Participant's employment with the Employer shall terminate effective on the 30th day after receipt of such notice by the Participant (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Participant shall not have returned to full-time performance of the Participant's duties.
- (c) **Notice of termination.** Any termination of employment initiated by the Employer for Cause, or by the Participant for Good Reason, shall be communicated by a Notice of Termination to the other party. For purposes of this Plan, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Plan relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the provision so indicated, and (iii) specifies the date upon which the Participant's termination of employment is expected to occur (which date shall be not more than 30 days after the giving of such notice), provided, however, that such specified date shall not be considered the Date of Termination for any purpose of this Plan if such date differs from the Participant's actual Date of Termination. The failure by the Participant or the Employer to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Participant or the Employer, respectively, hereunder or preclude the Participant or the Employer, respectively, from asserting such fact or circumstance in enforcing the Participant's or the Employer's rights hereunder.

3.3. Separation Benefits. If a Participant's employment is terminated under the circumstances set forth in Section 3.2(a) entitling the Participant to Separation Benefits, and if the Participant signs a Non-Competition Agreement and a Non-Solicitation Agreement, the Company shall pay or provide, as the case may be, to the Participant the amounts and benefits set forth in items (a) through (e) below (the "Separation Benefits"):

- (a) The Employer shall pay to the Participant, in a lump sum in cash within 30 days after the Date of Termination (or, if later, 30 days after the date of the Change in Control), or on such later date as required under Section 3.3(g), the sum of (A) the Participant's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (B) the product of (x) the Participant's Annual Incentive Award Target and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination and the denominator of which is 365, (C) the product of (x) the Participant's Long-Term Incentive Award Target and (y) a fraction, the numerator of which is the number of days completed in the applicable performance cycle through the Date of Termination and the denominator of which is the total number of days in the performance cycle, and (D) any accrued vacation pay, in each case to the extent not theretofore paid. The sum of the amounts described in sub clauses (A), (B), (C) and (D), shall be referred to as the "Accrued Obligations", and, in the case of the amounts described in sub clauses (B) and (C), shall be reduced by any amount paid or payable under the Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan on account of the same fiscal year or performance cycle, as applicable.
- (b) The Employer also shall pay to the Participant, in a lump sum in cash within 30 days after the Date of Termination (or, if later, 30 days after the date of the Change in Control), or on such later date as required under Section 3.3(g), an amount ("Separation Pay") equal to the product of (A) two (or in the case of a Participant who served as Chairman and Chief Executive Officer immediately prior to the Change in Control, three) and (B) the sum of (x) the Participant's Annual Base Salary and (y) the Participant's Annual Incentive Award Target, reduced (but not below zero) in the case of any Participant who is a Non-U.S. Executive by the U.S. dollar equivalent (determined as of the Participant's Date of Termination) of any payments made to the Participant under the laws of his or her designated home country or any program or policy of the Employer in such country on account of the Participant's termination of employment.

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- (c) Solely with respect to U.S. Participants, for two years after the Participant's Date of Termination (or, if later, the date of the Change in Control), (or in the case of a Participant who served as Chairman and Chief Executive Officer immediately prior to the Change in Control, three years), or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Employer shall continue welfare benefits to the Participant and/or the Participant's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies (including, without limitation, medical, prescription, dental, disability, employee/spouse/child life insurance, executive life, estate preservation (second-to-die life insurance) and travel accident insurance plans and programs), as if the Participant's employment had not been terminated, or, if more favorable to the Participant, as in effect generally at any time thereafter with respect to other peer executives of the Company and its Affiliates and their families; provided, however, that if the Participant becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. The period of continuation of any group medical plan coverage under Section 4980B of the Code (the "COBRA Period") shall run concurrently during the period for which medical coverage is provided to the Participant pursuant to this Section 3.3(c). The provision of medical coverage made during the COBRA Period is intended to qualify for the exception to deferred compensation as a medical benefit provided in accordance with the provisions of Section 409A of the Code and Treasury Regulation § 1.409A-1(b)(9)(v)(B). Any reimbursements required to be made to a Participant under any arrangement pursuant to this Section 3.3(c) that is not described in the preceding sentence or is not excepted from Section 409A of the Code under Treasury Regulation § 1.409A-1(a)(5) shall be made to the Participant no later than the end of the Participant's second taxable year following the expense being reimbursed was incurred. The maximum amount of any such welfare benefits provided to a Participant under this provision in any calendar year shall not be increased or decreased to reflect the amount of such welfare benefits provided to such Participant under this provision in a prior or subsequent calendar year. For purposes of determining the Participant's eligibility for retiree benefits pursuant to such welfare plans, practices, programs and policies, the Participant shall be considered to have remained employed until two years (or in the case of a Participant who served as Chairman and Chief Executive Officer immediately prior to the Change in Control, three years) after the Date of Termination; provided, however, that the Participant's commencement of such retiree benefits shall not be any sooner than the date on which the Participant attains 55 years of age and provided, further, that the Participant's costs under any such retiree benefits plans, practices, programs or policies shall be based upon actual service with the Company and its Affiliates.
- (d) The Employer shall, at its sole expense, provide the Participant with outplacement services through the provider of the Company's choice, the scope of which shall be chosen by the Participant in his or her sole discretion within the terms and conditions of the Company's outplacement services policy as in effect immediately prior to the Change in Control, but in no event shall such outplacement services continue for more than two years after the calendar year in which the Participant terminates employment.
- (e) The Employer shall, for two years after the Participant's Date of Termination (or in the case of a Participant who served as Chairman and Chief Executive Officer immediately prior to the Change in Control, three years), or after the Change in Control, if later, or such longer period as may be provided by the terms of the appropriate perquisite, continue the perquisites at least equal to those which would have been provided to them in accordance with the perquisites in effect immediately prior to the Change in Control; provided, however, that the maximum value of perquisites provided to a Participant under this provision in any calendar year shall not be increased or decreased to reflect the value of perquisites provided to such Participant under this provision in a prior or subsequent calendar year. Any reimbursements to a Participant for costs associated with such continued perquisites shall be made no later than the end of the Participant's second taxable year following the date the Participant incurred such cost. This clause does not apply to personal use of the Company aircraft to the extent that this perquisite is in effect for any Key Executive immediately prior to the Change in Control.

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- (f) To the extent not theretofore paid or provided, the Employer shall pay or provide to the Participant, at the time otherwise payable, any other amounts or benefits required to be paid or provided or that the Participant is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its Affiliates.
- (g) Notwithstanding the foregoing, if the Participant is a “specified employee” within the meaning of Section 409A of the Code, then (i) any payments described in Sections 3.3(a) and (b) which the Company determines constitute the payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, shall be delayed and become payable within five days after the six-month anniversary of the Participant’s termination of employment and (ii) any benefits provided under Sections 3.3(c) and (e) which the Company determines constitute the payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, shall be provided at the Participant’s sole cost during the six-month period after the date of the Participant’s termination of employment, and within five days after the expiration of such period the Company shall reimburse the Participant for the portion of such costs payable by the Company pursuant to Sections 3.3(c) and (e) hereof.
- (h) For all purposes under the applicable Company non-qualified defined benefit pension plan, the Company shall credit the Participant with two (or in the case of a Participant who served as Chairman and Chief Executive Officer immediately prior to the Change in Control, three) additional years of service and shall add two (or in the case of a Participant who served as Chairman and Chief Executive Officer immediately prior to the Change in Control, three) years to the Participant’s age.

3.4. Certain Additional Payments by the Employer.

- (a) Anything in this Plan to the contrary notwithstanding, with respect to any Participant who is a citizen or resident of the United States, in the event it shall be determined that any Payment would be subject to the Excise Tax, then:
- (i) To the extent that such Participant commenced participation in this Plan on or before December 31, 2009, the Participant shall be entitled to receive an additional payment (a “Gross-Up Payment”) in an amount such that after payment by the Participant of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Participant retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 3.4(a), if it shall be determined that any Participant, other than a Participant who served as Chairman and Chief Executive Officer of the Company immediately prior to the Change in Control, is entitled to a Gross-Up Payment, but that the Participant, after taking into account the Payments and the Gross-Up Payment, would not receive a Net After-Tax Benefit which is at least ten percent (10%) greater than the net after-tax proceeds to the Participant resulting from an elimination of the Gross-Up Payment and a reduction of the Payments, in the aggregate, to an amount (the “Reduced Amount”) that is one dollar less than the smallest amount that would give rise to any Excise Tax, then no Gross-Up Payment shall be made to the Participant, and the Payments to the Participant, in the aggregate, shall be reduced to the Reduced Amount in the manner described below.

(ii) To the extent that such Participant commenced participation in this Plan on or after January 1, 2010, no Gross-Up Payment shall be made to the Participant, and the Payments to the Participant, in the aggregate, shall be the greater of:

a. The Net After-Tax Benefit, or

b. The Reduced Amount.

Except as provided in Section 3.4(b) below with regard to Payments made to a Participant who is subject to Section 3.4(a)(i), the Company and its Affiliates shall bear no responsibility for any Excise Tax payable on any Reduced Amount pursuant to a subsequent claim by the Internal Revenue Service or otherwise. For purposes of determining the Reduced Amount under this Section 3.4(a), amounts otherwise payable to the Participant under the Plan shall be reduced, to the extent necessary, in the following order: first, Separation Pay under Section 3.3(b), then Accrued Obligations payable under Section 3.3(a), other than Annual Base Salary through the Date of Termination, followed by outplacement services payable under Section 3.3(d), welfare benefits payable under Section 3.3(c), and, finally, perquisites payable under Section 3.3(e). In the event that such reductions are not sufficient to reduce the aggregate Payments to the Participant to the Reduced Amount, then Payments due the Participant under any other plan shall be reduced in the order determined by the Plan Administrator in its sole discretion.

(b) Subject to the provisions of Section 3.4(c), all determinations required to be made under this Section 3.4, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, or whether a Reduced Amount or a Net After-Tax Benefit is payable, and the assumptions to be utilized in arriving at such determinations, shall be made by the Company's independent auditors or such other nationally recognized certified public accounting firm as may be designated by the Company and approved by the Participant (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and the Participant within 15 business days of the receipt of notice from the Participant that there has been a Payment, or such earlier time as is requested by the Company. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Subject to Section 3.4(e) below, any Gross-Up Payment, as determined pursuant to this Section 3.4(b), shall be paid by the Employer to the Participant within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company, its Affiliates and the Participant. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Employer should have been made pursuant to Section 3.4(a)(i) (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 3.4(c) and the Participant thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Employer to or for the benefit of the Participant. Reimbursements and payments made with regard to any Underpayment shall be made no later than December 31 of the year next following the year in which the related Excise Taxes are remitted.

(c) This Section 3.4(c) shall apply solely to Participants who commence participation in the Plan on or before December 31, 2009. The Participant shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Employer of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Participant is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Participant shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Participant in writing prior to the expiration of such period that it desires to contest such claim, the Participant shall:

- (i) give the Company any information reasonably requested by the Company relating to such claim,
- (ii) take such action in connection with contesting such claim as the Company or its Affiliates shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
- (iii) cooperate with the Company and its Affiliates in good faith in order effectively to contest such claim, and
- (iv) permit the Company and its Affiliates to participate in any proceedings relating to such claim;

PROVIDED, HOWEVER, that (A) the Company or its Affiliates shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Participant harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 3.4(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Participant to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Participant agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; (B) that if the Company directs the Participant to pay such claim and sue for a refund, the Employer shall advance the amount of such payment to the Participant, on an interest-free basis and shall indemnify and hold the Participant harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Participant with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Participant shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

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- (d) If, after the receipt by the Participant of an amount advanced by the Employer pursuant to Section 3.4(c), the Participant becomes entitled to receive any refund with respect to such claim, the Participant shall (subject to compliance with the requirements of Section 3.4(c) by the Company and its Affiliates) promptly pay to the Employer the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Participant of an amount advanced by the Employer pursuant to Section 3.4(c), a determination is made that the Participant shall not be entitled to any refund with respect to such claim and the Company does not notify the Participant in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.
- (e) Notwithstanding any other provision of this Section 3.4, the Employer may withhold and pay over to the Internal Revenue Service for the benefit of the Participant all or any portion of the Gross-Up Payment that it determines in good faith that it is or may be in the future required to withhold, and the Participant hereby consents to such withholding.

3.5. Payment Obligations Absolute. Upon a Change in Control and termination of employment under the circumstances described in Section 3.2(a), the obligations of the Company and its Affiliates to pay or provide the Separation Benefits described in Section 3.3 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company or any of the Affiliates may have against any Participant. In no event shall a Participant be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to a Participant under any of the provisions of this Plan, nor shall the amount of any payment or value of any benefits hereunder be reduced by any compensation or benefits earned by a Participant as a result of employment by another employer, except as specifically provided under Section 3.3.

3.6. Non-Competition and Non-Solicitation. Upon a Change in Control and termination of employment under the circumstances described in Section 3.2(a), the obligations of the Company and its Affiliates to pay or provide the Separation Benefits described in Section 3.3 are contingent on the Participant's adhering to the Non-Competition Agreement and the Non-Solicitation Agreement. Should the Participant violate the Non-Competition Agreement or Non-Solicitation Agreement, the Participant will be obligated to pay back to the Employer all payments received pursuant to this Plan and the Employer will have no further obligation to pay the Participant any payments that may be remaining due under this Plan.

3.7. Non-Disparagement. Upon a Change in Control and termination of employment under the circumstances described in Section 3.2(a), the obligations of the Company and its Affiliates to pay or provide the Separation Benefits described in Section 3.3 are contingent on the Participant's adhering to certain non-disparagement provisions. The Participant agrees that, in discussing their relationship with the Employer, such Participant will not disparage, discredit or otherwise treat in a detrimental manner the Employer, its affiliated and parent companies or their officers, directors and employees. The Employer agrees that, in discussing its relationship with the Participant, it will not disparage or discredit such Participant or otherwise treat such Participant in a detrimental way.

3.8 General Release of Claims. Upon a Change in Control and termination of employment under the circumstances described in Section 3.2(a), the obligations of the Company and its Affiliates to pay or provide the Separation Benefits described in Section 3.3 are contingent on the Participant's (for him/herself, his/her heirs, legal representatives and assigns) agreement to execute a general release in the form and substance to be provided by Employer, releasing the Employer, its affiliated companies and their officers, directors, agents and employees from any claims or causes of action of any kind that the Participant might have against any one or more of them as of the date of this Release, regarding his/her employment or the termination of that employment. The Participant understands that this Release applies to all claims (s)he might have under any federal, state or local statute or ordinance, or the common law, for employment discrimination, wrongful discharge, breach of contract, violations of Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Employee Retirement Income Security Act, the Americans With Disabilities Act, or the Family and Medical Leave Act, and all other claims related in any way to Participant's employment or the termination of that employment.

3.9. Non-Exclusivity of Rights. Nothing in this Plan shall prevent or limit the Participant's continuing or future participation in any plan, program, policy or practice provided by the Company or any of the Affiliates and for which the Participant may qualify, nor, subject to Section 6.2, shall anything herein limit or otherwise affect such rights as the Participant may have under any contract or agreement with the Company or any of the Affiliates. Amounts or benefits which the Participant is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of the Affiliates shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Plan.

4. Successor to Company

This Plan shall bind any successor of the Company, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), in the same manner and to the same extent that the Company or its Affiliates would be obligated under this Plan if no succession had taken place.

In the case of any transaction in which a successor would not be bound by the foregoing provision or by operation of law be bound by this Plan, the Company shall require such successor expressly and unconditionally to assume and agree to perform the Company's or its Affiliates' obligations under this Plan, in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. The term "Company," as used in this Plan, shall mean the Company as hereinbefore defined and any successor or assignee to the business or assets which by reason hereof becomes bound by this Plan.

5. Duration, Amendment and Termination

5.1. Duration. This Plan shall remain in effect until terminated as provided in Section 5.2. Notwithstanding the foregoing, if a Change in Control occurs, this Plan shall continue in full force and effect and shall not terminate or expire until after all Participants who become entitled to any payments or benefits hereunder shall have received such payments or benefits in full.

5.2. Amendment and Termination. The Plan may be terminated or amended in any respect by resolution adopted by the Committee unless a Change in Control has previously occurred. However, after the Board has knowledge of a possible transaction or event that if consummated would constitute a Change in Control, this Plan may not be terminated or amended in any manner which would adversely affect the rights or potential rights of Participants, unless and until the Board has determined that all transactions or events that, if consummated, would constitute a Change in Control have been abandoned and will not be consummated, and, provided that, the Board does not have knowledge of other transactions or events that, if consummated, would constitute a Change in Control. If a Change in Control occurs, the Plan shall no longer be subject to amendment, change, substitution, deletion, revocation or termination in any respect that adversely affects the rights of Participants, and no Participant shall be removed from Plan participation.

6. Miscellaneous

6.1. Legal Fees. The Company agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Participant may reasonably incur as a result of any contest by the Company or the Affiliates, the Participant or others of the validity or enforceability of, or liability under, any provision of this Plan or any guarantee of performance thereof (including as a result of any contest by the Participant about the amount of any payment pursuant to this Plan), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code; provided that the Company shall have no obligation under this Section 6.1 to the extent the resolution of any such contest includes a finding denying, in total, the Participant's claims in such contest.

6.2. Employment Status. This Plan does not constitute a contract of employment or impose on the Participant, the Company or the Participant's Employer any obligation to retain the Participant as an employee, to change the status of the Participant's employment as an "at will" employee, or to change the Company's or the Affiliates' policies regarding termination of employment.

6.3. Tax Withholding. The Employer may withhold from any amounts payable under this Plan such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

6.4. Validity and Severability. The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

6.5. Governing Law. The validity, interpretation, construction and performance of the Plan shall in all respects be governed by the laws of the Commonwealth of Virginia, without reference to principles of conflict of law.

6.6. Section 409A of the Code. The Plan shall be interpreted, construed and operated to reflect the intent of the Company that all aspects of the Plan shall be interpreted either to be exempt from the provisions of Section 409A of the Code or, to the extent subject to Section 409A of the Code, comply with Section 409A of the Code and any regulations and other guidance thereunder. Notwithstanding anything to the contrary in Section 5.2, this Plan may be amended at any time, without the consent of any Participant, to avoid the application of Section 409A of the Code in a particular circumstance or to the extent determined necessary or desirable to satisfy any of the requirements under Section 409A of the Code, but the Employer shall not be under any obligation to make any such amendment. Nothing in the Plan shall provide a basis for any person to take action against the Employer based on matters covered by Section 409A of the Code, including the tax treatment of any award made under the Plan, and the Employer shall not under any circumstances have any liability to any Participant or other person for any taxes, penalties or interest due on amounts paid or payable under the Plan, including taxes, penalties or interest imposed under Section 409A of the Code.

6.7 Claim Procedure. If a Participant makes a written request alleging a right to receive Separation Benefits under the Plan or alleging a right to receive an adjustment in benefits being paid under the Plan, the Company shall treat it as a claim for benefits. All claims for Separation Benefits under the Plan shall be sent to the General Counsel of the Company and must be received within 30 days after the Date of Termination. If the Company determines that any individual who has claimed a right to receive Separation Benefits under the Plan is not entitled to receive all or a part of the benefits claimed, it will inform the claimant in writing of its determination and the reasons therefore in terms calculated to be understood by the claimant. The notice will be sent within 90 days of the written request, unless the Company determines additional time, not exceeding 90 days, is needed and provides the Participant with notice, during the initial 90-day period, of the circumstances requiring the extension of time and the length of the extension. The notice shall make specific reference to the pertinent Plan provisions on which the denial is based, and describe any additional material or information that is necessary. Such notice shall, in addition, inform the claimant what procedure the claimant should follow to take advantage of the review procedures set forth below in the event the claimant desires to contest the denial of the claim. The claimant may within 90 days thereafter submit in writing to the Plan Administrator a notice that the claimant contests the denial of his or her claim by the Company and desires a further review. The Plan Administrator shall within 60 days thereafter review the claim and authorize the claimant to appear personally and review the pertinent documents and submit issues and comments relating to the claim to the persons responsible for making the determination on behalf of the Plan Administrator. The Plan Administrator will render its final decision with specific reasons therefor in writing and will transmit it to the claimant within 60 days of the written request for review, unless the Plan Administrator determines additional time, not exceeding 60 days, is needed, and so notifies the Participant during the initial 60-day period. If the Plan Administrator fails to respond to a claim filed in accordance with the foregoing within 60 days or any such extended period, the Plan Administrator shall be deemed to have denied the claim. The Committee may revise the foregoing procedures as it determines necessary to comply with changes in the applicable U.S. Department of Labor regulations.

6.8. Unfunded Plan Status. This Plan is intended to be an unfunded plan and to qualify as a severance pay plan within the meaning of Labor Department Regulations Section 2510.3-2(b). All payments pursuant to the Plan shall be made from the general funds of the Employer and no special or separate fund shall be established or other segregation of assets made to assure payment. No Participant or other person shall have under any circumstances any interest in any particular property or assets of the Company or its Affiliates as a result of participating in the Plan. Notwithstanding the foregoing, the Committee may authorize the creation of trusts or other arrangements to assist in accumulating funds to meet the obligations created under the Plan; provided, however, that, unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

6.9. Reliance on Adoption of Plan. Subject to Section 5.2, each person who shall become a Key Executive shall be deemed to have served and continue to serve in such capacity in reliance upon the Change in Control provisions contained in this Plan.

6.10. Plan Supersedes prior U.S. Arrangements with one Exception. For the period of two years following the occurrence of a Change in Control, the provisions of this Program shall supersede, with respect to U.S. Participants, any and all plans, programs, policies and arrangements of the Company or its Affiliates providing severance benefits, EXCEPT FOR the 2005 Performance Incentive Plan.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by its duly authorized officer effective as of the Effective Date set forth above.

KRAFT FOODS INC.

By: /s/ Karen May
Karen May
EVP, Global Human Resources



November 23, 2009

Mr. Tony Vernon

Dear Tony,

The letter confirms our agreement to amend the terms of our offer letter to you, dated June 17, 2009 (the "Letter"), for the position of President Kraft Foods North America. The Letter is amended in the following respects, effective November 23, 2009:

1. The following new sentence is added at the end of the third paragraph of the Section entitled *Other Benefits* relating to severance arrangements in the event of involuntary termination without cause:

"The amount of any severance pay under such arrangements shall be paid in equal installments at the regularly scheduled dates for payment of salary to Kraft executives and beginning within 30 days of your termination."

2. The following new Section is added immediately prior to the last sentence of the Letter:

"Section 409A of the Code

If you are a "specified employee" (within the meaning of Code section 409A) as of your separation from service (within the meaning of Code section 409A):

(a) payment of any amounts under this letter (or under any severance arrangement pursuant to this letter) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be paid upon your separation from service shall not be paid before the date that is six months after the date of your separation from service and any amounts that cannot be paid by reason of this limitation shall be accumulated and paid on the first day of the seventh month following the date of your separation from service (within the meaning of Code section 409A); and

(b) any welfare or other benefits (including under a severance arrangement) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be provided upon your separation from service shall be provided at your sole cost during the first six-month period after your separation from service and, on the first day of the seventh month following your separation from service, the Company shall reimburse you for the portion of such costs that would have been payable by the Company for that period if you were not a specified employee.

Payment of any reimbursement amounts and the provision of benefits by the Company pursuant to this letter (including any reimbursements or benefits to be provided pursuant to a severance arrangement) which the Company determines constitute nonqualified deferred compensation (within the meaning of Code section 409A) shall be subject to the following:

- (a) the amount of the expenses eligible for reimbursement or the in-kind benefits provided during any calendar year shall not affect the amount of the expenses eligible for reimbursement or the in-kind benefits to be provided in any other calendar year;

(b) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the calendar year in which the expense was incurred; and

(c) your right to reimbursement or in-kind benefits is not subject to liquidation or exchange for any other benefit.”

The foregoing amendment is intended to conform the terms of the Letter to the final regulations issued under section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), but it shall not provide a basis for any action against the Company or any related company based on matters covered by section 409A of the Code.

Please signify your agreement with the terms of this amendment by signing this letter and returning it to my attention before November 27, 2009.

Sincerely yours,

/s/ David Pendleton

David Pendleton
Vice President Compensation
Kraft Foods Inc.
3 Lakes Drive
Northfield, IL 60093
847/646-7688

/s/ William A. Vernon

Signature

December 7, 2009

Date

Kraft Foods Inc. and Subsidiaries
 Computation of Ratios of Earnings to Fixed Charges
 (in millions of dollars)

	Years Ended December 31,				
	2009	2008	2007	2006	2005
Earnings from continuing operations before income taxes	\$ 4,287	\$ 2,603	\$ 3,572	\$ 3,648	\$ 3,738
Add / (Deduct):					
Equity in net earnings of less than 50% owned affiliates	(92)	(96)	(83)	(71)	(67)
Dividends from less than 50% owned affiliates	55	84	57	51	55
Fixed charges	1,452	1,426	836	708	777
Interest capitalized, net of amortization	(1)	(5)	(5)	(4)	(1)
Earnings available for fixed charges	<u>\$ 5,701</u>	<u>\$ 4,012</u>	<u>\$ 4,377</u>	<u>\$ 4,332</u>	<u>\$ 4,502</u>
Fixed charges:					
Interest incurred:					
Interest expense (a)	\$ 1,280	\$ 1,281	\$ 702	\$ 578	\$ 651
Capitalized interest	<u>3</u>	<u>6</u>	<u>10</u>	<u>8</u>	<u>3</u>
Portion of rent expense deemed to represent interest factor	1,283	1,287	712	586	654
Fixed charges	<u>169</u>	<u>139</u>	<u>124</u>	<u>122</u>	<u>123</u>
Fixed charges	<u>\$ 1,452</u>	<u>\$ 1,426</u>	<u>\$ 836</u>	<u>\$ 708</u>	<u>\$ 777</u>
Ratio of earnings to fixed charges	<u>3.9</u>	<u>2.8</u>	<u>5.2</u>	<u>6.1</u>	<u>5.8</u>

Notes:

(a) Excludes interest related to uncertain tax positions, which is recorded in our tax provision.

Company Name	State of Incorporation	Country of Incorporation
152999 Canada Inc.		Canada
3072440 Nova Scotia Company		Canada
AB Kraft Foods Lietuva		Lithuania
Abades B.V.		Netherlands
Aberdare Developments Limited		Virgin Islands (British)
Aberdare Two Developments Limited		Virgin Islands (British)
AGF Kanto, Inc.		Japan
AGF SP, Inc.		Japan
AGF Suzuka, Inc.		Japan
Ajinomoto General Foods, Inc.		Japan
Alimentos Especiales, Sociedad Anonima		Guatemala
All Food N.V.		Belgium
Back to Nature Foods Company	Delaware	United States
Battery Properties, Inc.	Delaware	United States
Beijing Nabisco Food Company Ltd.		China
BIMO-Biscuiterie Industrielle du Moghreb SA		Morocco
Biscuit Brands (Kuan) Pte. Ltd.		Singapore
Biscuiterie de l'isle S.A.S.		France
Boca Foods Company	Delaware	United States
Branded Restaurant Group Inc.	Delaware	United States
Callard & Bowser-Suchard, Inc.	Delaware	United States
Capri Sun, Inc.	Delaware	United States
Carlton Lebensmittelvertriebs GmbH		Germany
Cheil Communications Inc.		Korea, Republic of
Chromium Acquisitions Limited		United Kingdom
Chromium Assets Limited		United Kingdom
Chromium Suchex LLP		United Kingdom
Churny Company, Inc.	Delaware	United States
Claussen Pickle Co.	Delaware	United States
Closed Joint Stock Company Kraft Foods Ukraine		Ukraine
Compania Venezolana de Conservas, C.A.		Venezuela
Confibel SPRL		Belgium
Continental Biscuits Ltd.		Pakistan
Corporativo Kraft, S. en N.C. de C.V.		Mexico
Cote d'Or Italia S.r.l.		Italy
Covenco Holding C.A.		Venezuela
Daesung Machinery		Korea, Republic of
DON Snack Foods Handelsgesellschaft mbH		Germany
Dong Suh Foods Corporation		Korea, Republic of
Dong Suh Oil & Fats Co., Ltd.		Korea, Republic of
El Gallito Industrial, S.A.		Costa Rica
Family Nutrition S.A.E.		Egypt
Fattorie Osella S.p.A.		Italy
Freezer Queen Foods (Canada) Limited		Canada
Freia AS		Norway

Company Name	State of Incorporation	Country of Incorporation
Fulmer Corporation Limited		Bahamas
General Biscuit Belgie BVBA		Belgium
General Biscuits Nederland B.V.		Netherlands
General Foods Pty. Ltd.		Australia
Generale Biscuit Egypt S.A.E.		Egypt
Generale Biscuit Glico France S.A.		France
Generale Biscuit SAS		France
Gemika B.V.		Netherlands
Gyori Keksz Kft SARL		Hungary
Hervin Holdings, Inc.	Delaware	United States
Industria de Colores y Sabores S.A.		Columbia
Japan Beverage, Inc.		Japan
Johann Jacobs GmbH		Germany
K&S Alimentos S.A.		Brazil
KFI-USLLC I	Delaware	United States
KFI-USLLC IX	Delaware	United States
KFI-USLLC VII	Delaware	United States
KFI-USLLC VIII	Delaware	United States
KFI-USLLC XI	Delaware	United States
KFI-USLLC XIII	Delaware	United States
KFI-USLLC XIV	Delaware	United States
KFI-USLLC XVI	Delaware	United States
KJS India Private Limited		India
Knutsen Boyelaster II K/S		Norway
Kohrs Packing Company	Delaware	United States
KPC Foods, Inc.	Delaware	United States
Kraft Beverage (Tianjin) Co., Ltd.		China
Kraft Biscuits Iberia, S.L.		Spain
Kraft Canada Inc.		Canada
Kraft Food Ingredients Corp.	Delaware	United States
Kraft Foods (Australia) Limited		Australia
Kraft Foods (Bahrain) W.L.L.		Bahrain
Kraft Foods (Beijing) Company Limited		China
Kraft Foods (China) Company Limited		China
Kraft Foods (Malaysia) Sdn Bhd		Malaysia
Kraft Foods (New Zealand) Limited		New Zealand
Kraft Foods (Philippines), Inc.		Philippines
Kraft Foods (Puerto Rico), LLC	Puerto Rico	United States
Kraft Foods (Shanghai) Co., Ltd.		China
Kraft Foods (Suzhou) Co., Ltd.		China
Kraft Foods (Thailand) Limited		Thailand
Kraft Foods (Trinidad) Unlimited		Trinidad and Tobago
Kraft Foods Argentina S.A.		Argentina
Kraft Foods AS		Norway
Kraft Foods Asia Pacific Services LLC	Delaware	United States

Company Name	State of Incorporation	Country of Incorporation
Kraft Foods Asia Pacific Services Pte Ltd		Singapore
Kraft Foods Ausser-Haus Service GmbH		Germany
Kraft Foods Aviation, LLC	Wisconsin	United States
Kraft Foods Bakery Companies, Inc.	Delaware	United States
Kraft Foods Belgium SPRL		Belgium
Kraft Foods Belgium Distribution BVBA		Belgium
Kraft Foods Belgium Intellectual Property BVBA		Belgium
Kraft Foods Belgium Production BVBA		Belgium
Kraft Foods Belgium Production Holdings BVBA		Belgium
Kraft Foods Belgium Services BVBA		Belgium
Kraft Foods Biscuit Brands Kuan LLC	Delaware	United States
Kraft Foods Biscuits Holdings CV		Netherlands
Kraft Foods Bolivia S.A.		Bolivia
Kraft Foods Brasil do Nordeste Ltda.		Brazil
Kraft Foods Brasil S.A.		Brazil
Kraft Foods Bulgaria AD		Bulgaria
Kraft Foods Caribbean Sales Corp.	Delaware	United States
Kraft Foods CEEMA GmbH		Austria
Kraft Foods Central & Eastern Europe Service BV		Netherlands
Kraft Foods Cesko Holdings B.V.		Netherlands
Kraft Foods Chile S.A.		Chile
Kraft Foods Colombia Ltda.		Colombia
Kraft Foods Colombia S.A.S.		Colombia
Kraft Foods Costa Rica, S.A.		Costa Rica
Kraft Foods CR s.r.o.		Czech Republic
Kraft Foods d.o.o. Belgrade		Serbia
Kraft Foods Danmark Aps		Denmark
Kraft Foods de Mexico, S. de R.L. de C.V.		Mexico
Kraft Foods de Nicaragua, S.A.		Nicaragua
Kraft Foods Deutschland GmbH		Germany
Kraft Foods Deutschland Holding GmbH		Germany
Kraft Foods Deutschland Intellectual Property GmbH & Co Kg		Germany
Kraft Foods Deutschland Production GmbH & Co Kg		Germany
Kraft Foods Deutschland Services GmbH & Co Kg		Germany
Kraft Foods Dominicana, S.A.		Dominican Republic
Kraft Foods Ecuador Cia. Ltda		Ecuador
Kraft Foods Eesti Osauhing		Estonia
Kraft Foods Egypt LLC		Egypt
Kraft Foods Egypt Trading LLC		Egypt
Kraft Foods El Salvador S.A. de C.V.		El Salvador
Kraft Foods Espana Biscuits Holdings B.V.		Netherlands
Kraft Foods Espana Commercial SLU		Spain
Kraft Foods Espana Holdings SLU		Spain
Kraft Foods Espana Intellectual Property S.L.U.		Spain
Kraft Foods Espana Production S.L.U.		Spain

Company Name	State of Incorporation	Country of Incorporation
Kraft Foods Espana Services SLU		Spain
Kraft Foods Europe GmbH		Switzerland
Kraft Foods Europe Procurement GmbH		Switzerland
Kraft Foods Europe Services GmbH		Switzerland
Kraft Foods European Business Services Centre, S.L.U.		Spain
Kraft Foods European Business Services Centre, s.r.o.		Slovakia
Kraft Foods Finance Europe AG		Switzerland
Kraft Foods Financing Luxembourg S.a.r.l.		Luxembourg
Kraft Foods France Biscuit S.A.S.		France
Kraft Foods France Intellectual Property SAS		France
Kraft Foods France SAS		France
Kraft Foods Galletas S.A.		Spain
Kraft Foods Global Brands LLC	Delaware	United States
Kraft Foods Global Brands, Inc.	Delaware	United States
Kraft Foods Global, Inc.	Delaware	United States
Kraft Foods Hellas Manufacturing S.A.		Greece
Kraft Foods Hellas S.A.		Greece
Kraft Foods Hellas Sales & Distribution S.A.		Greece
Kraft Foods Holding (Europa) GmbH		Switzerland
Kraft Foods Holdings LLC	Delaware	United States
Kraft Foods Holdings Services, Inc.	Delaware	United States
Kraft Foods Holdings Singapore Pte. Ltd.		Singapore
Kraft Foods Holland Holding B.V.		Netherlands
Kraft Foods Honduras, S.A.		Honduras
Kraft Foods Hungaria Kft.		Hungary
Kraft Foods Intercontinental Netherlands C.V.		Netherlands
Kraft Foods International Beverages LLC	Delaware	United States
Kraft Foods International Biscuit Holdings LLC	Delaware	United States
Kraft Foods International Europe Holdings LLC	Delaware	United States
Kraft Foods International Holdings Delaware LLC	Delaware	United States
Kraft Foods International Services LLC	Delaware	United States
Kraft Foods International, Inc.	Delaware	United States
Kraft Foods Ireland Limited		Ireland
Kraft Foods Italia Intellectual Property S.r.l.		Italy
Kraft Foods Italia Production S.r.l.		Italy
Kraft Foods Italia S.r.l.		Italy
Kraft Foods Italia Services S.r.l.		Italy
Kraft Foods Jamaica Limited		Jamaica
Kraft Foods Japan, K.K.		Japan
Kraft Foods Jaya (Malaysia) Sdn Bhd		Malaysia
Kraft Foods (Jiangmen) Co., Ltd.		China
Kraft Foods Kazakhstan LLP		Kazakhstan
Kraft Foods LA MB Holding B.V.		Netherlands
Kraft Foods LA MC B.V.		Netherlands
Kraft Foods LA NMB B.V.		Netherlands

Company Name	State of Incorporation	Country of Incorporation
Kraft Foods LA NVA B.V.		Netherlands
Kraft Foods LA VA Holding B.V.		Netherlands
Kraft Foods Latin America Holding LLC	Delaware	United States
Kraft Foods Laverune Production S.N.C.		France
Kraft Foods Limited		Australia
Kraft Foods Limited (Asia)		Hong Kong
Kraft Foods Luxembourg S.a.r.l.		Luxembourg
Kraft Foods Manufacturing Malaysia Sdn Bhd		Malaysia
Kraft Foods Manufacturing Midwest, Inc.	Delaware	United States
Kraft Foods Manufacturing West, Inc.	Delaware	United States
Kraft Foods Maroc SA		Morocco
Kraft Foods Middle East & Africa FZE		United Arab Emirates
Kraft Foods Middle East & Africa Ltd.		United Kingdom
Kraft Foods Namur Production SPRL		Belgium
Kraft Foods Nederland B.V.		Netherlands
Kraft Foods Nederland Biscuit C.V.		Netherlands
Kraft Foods Nederland Services B.V.		Netherlands
Kraft Foods Nederland Services B.V. y Campania S.C.		Spain
Kraft Foods Norge AS		Norway
Kraft Foods Norge Intellectual Property AS		Norway
Kraft Foods Norge Production AS		Norway
Kraft Foods North America and Asia B.V.		Netherlands
Kraft Foods Oesterreich GmbH		Austria
Kraft Foods Osterreich Production GmbH		Austria
Kraft Foods Packaging Polska Sp. z o.o.		Poland
Kraft Foods Panama, S.A.		Panama
Kraft Foods Peru S.A.		Peru
Kraft Foods Polska S.A.		Poland
Kraft Foods Portugal Iberia-Produtos Alimentares Unipessoal, Lda		Portugal
Kraft Foods Portugal Produtos Alimentares Lda.		Portugal
Kraft Foods Postres, S.A.		Spain
Kraft Foods Production Holdings BVBA		Belgium
Kraft Foods Production Holdings Maatschap		Belgium
Kraft Foods R & D, Inc.	Delaware	United States
Kraft Foods Romania SA		Romania
Kraft Foods Sales Co., Ltd.		China
Kraft Foods Schweiz GmbH		Switzerland
Kraft Foods Schweiz Holding GmbH		Switzerland
Kraft Foods Schweiz Production GmbH		Switzerland
Kraft Foods Services South Africa (Pty) Ltd.		South Africa
Kraft Foods Singapore Pte Ltd		Singapore
Kraft Foods Slovakia, a.s.		Slovakia
Kraft Foods South Africa (Pty) Ltd.		South Africa
Kraft Foods Strasbourg Production S.N.C.		France
Kraft Foods Sverige AB		Sweden

Company Name	State of Incorporation	Country of Incorporation
Kraft Foods Sverige Holding AB		Sweden
Kraft Foods Sverige Intellectual Property AB		Sweden
Kraft Foods Sverige Production AB		Sweden
Kraft Foods Taiwan Holdings LLC	Delaware	United States
Kraft Foods Trading Singapore Pte Ltd		Singapore
Kraft Foods UK Intellectual Property Limited		United Kingdom
Kraft Foods UK Ltd.		United Kingdom
Kraft Foods UK Production Limited		United Kingdom
Kraft Foods UK R&D Limited		United Kingdom
Kraft Foods Uruguay S.A.		Uruguay
Kraft Foods Venezuela, C.A.		Venezuela
Kraft Foods World Travel Retail GmbH		Switzerland
Kraft Foods Zagreb d.o.o.		Croatia
Kraft Foods, trgovska druzba, d.o.o., Ljubljana		Slovenia
Kraft Gida Sanayi Ve Ticaret Anonim Sirketi		Turkey
Kraft Guangtong Food Company, Limited		China
Kraft Holding, S. de R.L. de C.V.		Mexico
Kraft Insurance (Ireland) Limited		Ireland
Kraft Jacobs Suchard (Australia) Pty. Ltd.		Australia
Kraft Jacobs Suchard la Vosgienne		France
Kraft Malaysia Sdn Bhd		Malaysia
Kraft New Services, Inc.	Delaware	United States
Kraft Pizza Company	Delaware	United States
Kraft Reinsurance (Ireland) Limited		Ireland
Kraft Tian Mei Food (Tianjin) Co., Ltd.		China
Kraft, Inc.	Delaware	United States
Krema Limited		Ireland
KTL S. de R.L. de C.V.		Mexico
Kuan Enterprises Private Limited		Singapore
Lacta Alimentos Ltda		Brazil
Landers Centro Americana, Fabricantes de Molinos Marca "Corona", S.A. de C.V.		Honduras
Lanes Biscuits Pty Ltd		Australia
Lanes Food (Australia) Pty Ltd		Australia
LLC Chipsey LYUKS		Ukraine
Lowney Inc.		Canada
LU Algeria SPA		Algeria
LU Antilles Guyane Caraibes SAS		France
LU France SAS		France
LU Ocean Indien SAS		France
LU Polska SA		Poland
LU Snack Foods GmbH		Germany
LU Suomi Oy		Finland
Lucky Life Insurance Co. Ltd.		Korea, Republic of
Merido Genussmittel GmbH		Germany

Company Name	State of Incorporation	Country of Incorporation
Merola Finance B.V.		Netherlands
Migabang Limited Company		Korea, Republic of
Mirabell Salzburger Confiserie-und Bisquit GmbH		Austria
Nabisco Arabia Co. Ltd.		Saudi Arabia
Nabisco Caribbean Export, Inc	Delaware	United States
Nabisco Food (Suzhou) Co. Ltd.		China
Nabisco Holdings I B.V.		Netherlands
Nabisco Holdings II B.V.		Netherlands
Nabisco Iberia, S.L.U.		Spain
Nabisco International Limited	Nevada	United States
Nabisco Inversiones S.R.L.		Argentina
Nabisco Philippines, Inc.		Philippines
Nabisco Royal Argentina LLC	Delaware	United States
Nabisco Taiwan Corporation		Taiwan
NISA Holdings LLC	Delaware	United States
NSA Holdings, L.L.C.	Delaware	United States
OAO "UNITED BAKERS - Pskov"		Russian Federation
OAO Bolshevik		Russian Federation
OMFC Service Company	Delaware	United States
ONKO Grossroesterei G.m.b.H.		Germany
OOO Kraft Foods Rus		Russian Federation
OOO Kraft Foods Sales & Marketing		Russian Federation
Opavia LU s.r.o.		Czech Republic
Opavia LU s.r.o.		Slovakia
Oy Kraft Foods Finland Ab		Finland
PT Kraft Foods Company Indonesia		Indonesia
PT Kraft Foods Indonesia		Indonesia
PT Kraft Indonesia		Indonesia
PT Kraft Symphoni Indonesia		Indonesia
PT Kraft Ultrajaya Indonesia		Indonesia
Perdue Trademark Subsidiary, Inc.	Delaware	United States
Phenix Leasing Corporation	Delaware	United States
Phenix Management Corporation	Delaware	United States
Pollio Italian Cheese Company	Delaware	United States
Productos Kraft, S. de R.L. de C.V.		Mexico
Produtos Alimenticios Pilar Ltda.		Brazil
Ritz Biscuit Company Limited		United Kingdom
Saiwa S.r.l.		Italy
Sam Kwang Glass Mfg.		Korea, Republic of
San Dionisio Realty Corporation		Philippines
Selba Nederland BV		Netherlands
Servicios Integrales Kraft S de R. L. de C.V.		Mexico
Servicios Kraft, S. de R.L. de C.V.		Mexico
Seven Seas Foods, Inc.	Delaware	United States
SIA Kraft Food Latvija		Latvia

Company Name	State of Incorporation	Country of Incorporation
Societe Tunisienne de Biscuiterie SA		Tunisia
Suno Estates, s.r.o.		Czech Republic
Symphony Biscuits Holdings Pte Ltd		Singapore
Taloca (Singapore) Pte Ltd.		Singapore
Taloca Cafe Ltda		Brazil
Taloca GmbH		Switzerland
Taloca y Cia Ltda.		Colombia
Tassimo Corporation	Delaware	United States
Tevalca Holding C.A.		Venezuela
The Hervin Company	Oregon	United States
The Kenco Coffee Company Limited		United Kingdom
The Knox Company	New Jersey	United States
The Yuban Coffee Company	Delaware	United States
United Biscuits Snacks (Shenzhen) Ltd.		China
Vict. Th. Engwall & Co., Inc.	Delaware	United States
West Indies Yeast Company Limited		Jamaica
Yili-Nabisco Biscuit & Food Company Limited		China

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-141891 and 333-147829), on Form S-4 (File No. 333-163483) and on Form S-8 (Nos. 333-71266, 333-84616, 333-125992, 333-133559 and 333-137021) of Kraft Foods Inc. of our reports dated February 16, 2010 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appear in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
February 25, 2010

Certifications

I, Irene B. Rosenfeld, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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: February 25, 2010

/s/ IRENE B. ROSENFELD
 Irene B. Rosenfeld
 Chairman and Chief Executive Officer

Certifications

I, Timothy R. McLevish, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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: February 25, 2010

/s/ TIMOTHY R. McLEVISH
 Timothy R. McLevish
 Executive Vice President and
 Chief Financial Officer

**CERTIFICATIONS OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Irene B. Rosenfeld, Chairman and Chief Executive Officer of Kraft Foods Inc., ("Kraft Foods") certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that Kraft Foods' Annual Report on Form 10-K for the period ended December 31, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in Kraft Foods' Annual Report on Form 10-K fairly presents in all material respects Kraft Foods' financial condition and results of operations.

/s/ IRENE B. ROSENFELD

Irene B. Rosenfeld
Chairman and Chief Executive Officer
February 25, 2010

I, Timothy R. McLevish, Executive Vice President and Chief Financial Officer of Kraft Foods Inc., ("Kraft Foods") certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that Kraft Foods' Annual Report on Form 10-K for the period ended December 31, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in Kraft Foods' Annual Report on Form 10-K fairly presents in all material respects Kraft Foods' financial condition and results of operations.

/s/ TIMOTHY R. McLEVISH

Timothy R. McLevish
Executive Vice President and
Chief Financial Officer
February 25, 2010

A signed original of these written statements required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Kraft Foods Inc. and will be retained by Kraft Foods Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Statement Of Income

Statement Of Income (USD \$) (in Millions except Per Share Data)	12 Months Ended 12/31/2009	12 Months Ended 12/31/2008	12 Months Ended 12/31/2007
Net revenues	\$ 40,386	\$ 41,932	\$ 35,858
Cost of sales	25,786	28,088	23,656
Gross profit	<u>14,600</u>	<u>13,844</u>	<u>12,202</u>
Marketing, administration and research costs	9,108	8,862	7,587
Asset impairment and exit costs	(64)	1,024	440
(Gains) / losses on divestitures, net	6	92	(14)
Amortization of intangibles	26	23	13
Operating income	<u>5,524</u>	<u>3,843</u>	<u>4,176</u>
Interest and other expense, net	1,237	1,240	604
Earnings from continuing operations before income taxes	<u>4,287</u>	<u>2,603</u>	<u>3,572</u>
Provision for income taxes	1,259	755	1,080
Earnings from continuing operations	<u>3,028</u>	<u>1,848</u>	<u>2,492</u>
Earnings and gain from discontinued operations, net of income taxes (Note 2)	0	1,045	232
Net earnings	<u>3,028</u>	<u>2,893</u>	<u>2,724</u>
Noncontrolling interest	7	9	3
Net earnings attributable to Kraft Foods	<u>\$ 3,021</u>	<u>\$ 2,884</u>	<u>\$ 2,721</u>
Per share data:			
Basic earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 2.04	\$ 1.22	\$ 1.56
Discontinued operations	\$ 0	\$ 0.70	\$ 0.15
Net earnings attributable to Kraft Foods	<u>\$ 2.04</u>	<u>\$ 1.92</u>	<u>\$ 1.71</u>
Diluted earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 2.03	\$ 1.21	\$ 1.56
Discontinued operations	\$ 0	\$ 0.69	\$ 0.14
Net earnings attributable to Kraft Foods	<u>\$ 2.03</u>	<u>\$ 1.90</u>	<u>\$ 1.70</u>
Dividends declared	\$ 1.16	\$ 1.12	\$ 1.04

Statement Of Financial Position Classified

Statement Of Financial Position Classified (USD \$) (in Millions)	12/31/2009	12/31/2008
ASSETS		
Cash and cash equivalents	\$ 2,101	\$ 1,244
Receivables (net of allowances of \$121 in 2009 and \$129 in 2008)	5,197	4,704
Inventories, net	3,775	3,881
Deferred income taxes	730	804
Other current assets	651	828
Total current assets	<u>12,454</u>	<u>11,461</u>
Property, plant and equipment, net	10,693	9,917
Goodwill	28,764	27,581
Intangible assets, net	13,429	12,926
Prepaid pension assets	115	56
Other assets	1,259	1,232
TOTAL ASSETS	<u>66,714</u>	<u>63,173</u>
LIABILITIES		
Short-term borrowings	453	897
Current portion of long-term debt	513	765
Accounts payable	3,766	3,373
Accrued marketing	2,181	1,803
Accrued employment costs	1,175	951
Other current liabilities	3,403	3,255
Total current liabilities	<u>11,491</u>	<u>11,044</u>
Long-term debt	18,024	18,589
Deferred income taxes	4,508	4,064
Accrued pension costs	1,765	2,367
Accrued postretirement health care costs	2,816	2,678
Other liabilities	2,138	2,075
TOTAL LIABILITIES	<u>40,742</u>	<u>40,817</u>
EQUITY		
Common Stock, no par value (1,735,000,000 shares issued in 2009 and 2008)	0	0
Additional paid-in capital	23,611	23,563
Retained earnings	14,636	13,440
Accumulated other comprehensive losses	(3,955)	(5,994)
Treasury stock, at cost	(8,416)	(8,714)
Total Kraft Foods Shareholders' Equity	<u>25,876</u>	<u>22,295</u>
Noncontrolling interest	96	61
TOTAL EQUITY	<u>25,972</u>	<u>22,356</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 66,714</u>	<u>\$ 63,173</u>

Statement Of Financial Position Classified (Parenthetical)

Statement Of Financial Position Classified (Parenthetical) (USD \$) (in Millions except Share Data)	12/31/2009	12/31/2008
Receivables, allowances	\$ 121	\$ 129
Common Stock, no par value	\$ 0	\$ 0
Common Stock, shares issued	1,735,000,000	1,735,000,000

Statement Of Shareholders Equity And Other Comprehensive Income

Statement Of Shareholders Equity And Other Comprehensive Income (USD \$) (in Millions)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings/ (Losses)	Treasury Stock	Noncontrolling Interest	Total
Beginning Balances at 2006-12-31	\$ 0	\$ 23,626	\$ 11,109	\$ (3,069)	\$ (3,130)	\$ 26	\$ 28,562
Comprehensive earnings / (losses):							
Net earnings			2,721				3 2,724
Other comprehensive earnings / (losses), net of income taxes				1,234			2 1,236
Total comprehensive earnings / (losses)							5 3,960
Adoption of new income tax guidance			213				213
Exercise of stock options and issuance of other stock awards		33	(79)		293		247
Net settlement of employee stock awards with Altria Group, Inc. (Note 10)		(179)					(179)
Cash dividends declared (\$1.16 per share in 2009, \$1.12 per share in 2008 and \$1.04 per share in 2007)			(1,643)				(1,643)
Acquisition of noncontrolling interest and other activities						7	7
Common Stock repurchased					(3,687)		(3,687)
Other		(35)					(35)
Ending Balances at 2007-12-31	0	23,445	12,321	(1,835)	(6,524)	38	27,445
Beginning Balances at 2007-12-31	0	23,445	12,321	(1,835)	(6,524)	38	27,445
Comprehensive earnings / (losses):							
Net earnings			2,884				9 2,893
Other comprehensive earnings / (losses), net of income taxes				(4,159)		(9)	(4,168)
Total comprehensive earnings / (losses)							(1,275)
Adoption of new benefit plan guidance			(8)				(8)
Exercise of stock options and issuance of other stock awards		118	(81)		231		268
Cash dividends declared (\$1.16 per share in 2009, \$1.12 per share in 2008 and \$1.04 per share in 2007)			(1,676)				(1,676)
Acquisition of noncontrolling interest and other activities						23	23
Common Stock repurchased					(777)		(777)
Common Stock tendered (Note 2)					(1,644)		(1,644)
Ending Balances at 2008-12-31	0	23,563	13,440	(5,994)	(8,714)	61	22,356
Beginning Balances at 2008-12-31	0	23,563	13,440	(5,994)	(8,714)	61	22,356
Comprehensive earnings / (losses):							
Net earnings			3,021				7 3,028
Other comprehensive earnings / (losses), net of income taxes				2,039		34	2,073
Total comprehensive earnings / (losses)						41	5,101
Exercise of stock options and issuance of other stock awards		49	(110)		298		237
Cash dividends declared (\$1.16 per share in 2009, \$1.12 per share in 2008 and \$1.04 per share in 2007)			(1,715)				(1,715)
Dividends paid on noncontrolling interest and other activities			(1)			(6)	(7)
Ending Balances at 2009-12-31	\$ 0	\$ 23,611	\$ 14,636	\$ (3,955)	\$ (8,416)	\$ 96	\$ 25,972

Statement Of Shareholders Equity And Other Comprehensive Income (Parenthetical)

Statement Of Shareholders Equity And Other Comprehensive Income (Parenthetical) (USD \$)	12 Months Ended 12/31/2009	12 Months Ended 12/31/2008	12 Months Ended 12/31/2007
Cash dividends declared, per share	\$ 1.16	\$ 1.12	\$ 1.04

Statement Of Cash Flows Indirect

Statement Of Cash Flows Indirect (USD \$) (in Millions)	12 Months Ended 12/31/2009	12 Months Ended 12/31/2008	12 Months Ended 12/31/2007
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES			
Net earnings	\$ 3,028	\$ 2,893	\$ 2,724
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	931	986	886
Stock-based compensation expense	164	178	136
Deferred income tax provision / (benefit)	38	(208)	(389)
(Gains) / losses on divestitures, net	6	92	(14)
Gain on discontinued operations (Note 2)	0	(926)	0
Asset impairment and exit costs, net of cash paid	17	731	209
Other non-cash expense, net	269	87	115
Change in assets and liabilities, excluding the effects of acquisitions and divestitures:			
Receivables, net	(17)	(39)	(268)
Inventories, net	299	(151)	(404)
Accounts payable	126	29	241
Amounts due to Altria Group, Inc. and affiliates	0	0	(93)
Other current assets	351	(535)	161
Other current liabilities	111	985	186
Change in pension and postretirement assets and liabilities, net	(239)	19	81
Net cash provided by operating activities	<u>5,084</u>	<u>4,141</u>	<u>3,571</u>
CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES			
Capital expenditures	(1,330)	(1,367)	(1,241)
Acquisitions, net of cash received	0	(99)	(7,437)
Proceeds from divestitures, net of disbursements	41	97	216
Other	50	49	46
Net cash used in investing activities	<u>(1,239)</u>	<u>(1,320)</u>	<u>(8,416)</u>
CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES			
Net (repayment) / issuance of short-term borrowings	(446)	(5,912)	5,649
Long-term debt proceeds	3	7,018	6,495
Long-term debt repaid	(968)	(795)	(1,472)
Decrease in amounts due to Altria Group, Inc. and affiliates	0	0	(149)
Repurchase of Common Stock	0	(777)	(3,708)
Dividends paid	(1,712)	(1,663)	(1,638)
Other	(10)	72	(56)
Net cash (used in) / provided by financing activities	<u>(3,133)</u>	<u>(2,057)</u>	<u>5,121</u>
Effect of exchange rate changes on cash and cash equivalents	145	(87)	52
Cash and cash equivalents:			
Increase	<u>857</u>	<u>677</u>	<u>328</u>
Balance at beginning of period	1,244	567	239
Balance at end of period	2,101	1,244	567
Cash paid:			
Interest	1,262	968	628
Income taxes	\$ 1,025	\$ 964	\$ 1,366

Summary of Significant Accounting Policies:

Summary of Significant Accounting Policies:
(USD \$)

12 Months Ended
12/31/2009

Summary of Significant Accounting Policies:

Note 1. Summary of Significant Accounting Policies:

Nature of Operations and Basis of Presentation:

Kraft Foods Inc. was incorporated in 2000 in the Commonwealth of Virginia. Kraft Foods Inc., through its subsidiaries (collectively "Kraft Foods," "we," "us" and "our"), sells packaged food and beverage products to consumers in approximately 160 countries.

Prior to June 13, 2001, Kraft Foods was a wholly owned subsidiary of Altria Group, Inc. ("Altria"). On June 13, 2001, we completed an initial public offering of 280,000,000 shares of our Class A common stock ("Common Stock"). In the first quarter of 2007, Altria spun off its remaining interest (89.0%) in Kraft Foods on a pro rata basis to Altria stockholders in a tax-free transaction. Effective as of the close of business on March 30, 2007, all Kraft Foods shares owned by Altria were distributed to Altria's stockholders, and our separation from Altria was completed.

Principles of Consolidation:

The consolidated financial statements include Kraft Foods, as well as our wholly owned and majority owned subsidiaries. Our domestic operating subsidiaries report year-end results as of the last Saturday of the year, and our international operating subsidiaries generally report year-end results two weeks prior to the last Saturday of the year.

We account for investments in which we exercise significant influence (20%-50% ownership interest) under the equity method of accounting. We use the cost method of accounting for investments in which we have an ownership interest of less than 20% and in which we do not exercise significant influence. Noncontrolling interest in subsidiaries consists of the equity interest of noncontrolling investors in consolidated subsidiaries of Kraft Foods. All intercompany transactions are eliminated.

Use of Estimates:

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require us to make estimates and assumptions that affect a number of amounts in our financial statements. Significant accounting policy elections, estimates and assumptions include, among others, pension and benefit plan assumptions, lives and valuation assumptions of goodwill and intangible assets, marketing programs and income taxes. We base our estimates on historical experience and other assumptions that we believe are reasonable. If actual amounts differ from estimates, we include the revisions in our consolidated results of operations in the period the actual amounts become known. Historically, the aggregate differences, if any, between our estimates and actual amounts in any year have not had a significant impact on our consolidated financial statements.

Foreign Currencies:

We translate the results of operations of our foreign subsidiaries using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. We record currency translation adjustments as a component of equity. Transaction gains and losses are recorded in earnings and were not significant for any of the periods presented.

Highly Inflationary Accounting:

In the fourth quarter of 2009, the Venezuelan economy was classified as highly inflationary under U.S. GAAP. Effective January 1, 2010, our Venezuelan subsidiary is being accounted for under highly inflationary accounting rules, which principally means all transactions are recorded in U.S. dollars. Venezuela has three exchange rates: the official rate, the consumer staples rate and the secondary (or parallel) rate. We have historically used and will continue to use the official rate to translate our Venezuelan operations. However, prior to this change in accounting, cash that we had exchanged into U.S. dollars using the secondary market was carried at that rate. Upon the change to highly inflationary accounting, we were required to translate our U.S. dollars on hand using the official rate. Additionally, on January 8, 2010, the Venezuelan government devalued its currency. Accordingly, we were required to revalue our net assets in Venezuela and we recorded an insignificant loss, which will be reflected in our first quarter 2010 results. This disclosure does not reflect the impacts of our recent acquisition activity.

Cash and Cash Equivalents:

Cash equivalents include demand deposits with banks and all highly liquid investments with original maturities of three months or less.

Inventories:

Inventories are stated at the lower of cost or market. We record inventory allowances for overstocked and obsolete inventories due to ingredient and packaging changes. Effective January 1, 2009, we changed our method of valuing our U.S. inventories to the average cost method. In prior years, principally all U.S. inventories were valued using the last-in, first-out ("LIFO") method. We believe that the average cost method of accounting for U.S. inventories is preferable and will improve financial reporting by better matching revenues and expenses to current costs, by better aligning our external reporting with our competitors, and by aligning our external reporting with our tax basis of accounting. The financial statements for all periods presented were conformed to the change in accounting policy.

With this change, we value all of our inventories using the average cost method.

The following line items within the statements of earnings were affected by the change in accounting policy:

For the Year Ended December 31, 2009				
	As Computed under LIFO		As Reported under Average Cost	Favorable / (Unfavorable)
(in millions, except per share data)				
Cost of sales	\$ 25,691	\$	25,786	\$ (95)
Provision for income taxes	1,294		1,259	35
Earnings from continuing operations	3,088		3,028	(60)
Earnings and gain from discontinued operations, net of income taxes	-		-	-
Net earnings attributable to Kraft Foods	3,081		3,021	(60)
Basic earnings per share attributable to Kraft Foods:				
Continuing operations	\$ 2.08	\$	2.04	\$ (0.04)
Discontinued operations	-		-	-
Net earnings attributable to Kraft Foods	<u>\$ 2.08</u>	<u>\$</u>	<u>2.04</u>	<u>\$ (0.04)</u>
Diluted earnings per share attributable to Kraft Foods:				
Continuing operations	\$ 2.07	\$	2.03	\$ (0.04)
Discontinued operations	-		-	-
Net earnings attributable to Kraft Foods	<u>\$ 2.07</u>	<u>\$</u>	<u>2.03</u>	<u>\$ (0.04)</u>
For the Year Ended December 31, 2008				
	As Computed under LIFO		As Reported under Average Cost	Favorable / (Unfavorable)
(in millions, except per share data)				
Cost of sales	\$ 28,105	\$	28,088	\$ 17
Provision for income taxes	728		755	(27)
Earnings from continuing operations	1,858		1,848	(10)
Earnings and gain from discontinued operations, net of income taxes	1,052		1,045	(7)
Net earnings attributable to Kraft Foods	2,901		2,884	(17)
Basic earnings per share attributable to Kraft Foods:				
Continuing operations	\$ 1.23	\$	1.22	\$ (0.01)
Discontinued operations	0.70		0.70	-
Net earnings attributable to Kraft Foods	<u>\$ 1.93</u>	<u>\$</u>	<u>1.92</u>	<u>\$ (0.01)</u>
Diluted earnings per share attributable				

to Kraft Foods:				
Continuing operations	\$	1.22	\$	1.21
Discontinued operations				\$ (0.01)
		<u>0.69</u>		<u>0.69</u>
Net earnings attributable to Kraft Foods	\$	1.91	\$	1.90
				\$ (0.01)

	For the Year Ended December 31, 2007		
	As Computed under LIFO	As Reported under Average Cost	Favorable / (Unfavorable)
	(in millions, except per share data)		
Cost of sales	\$ 23,864	\$ 23,656	\$ 208
Gains on divestitures, net	15	14	(1)
Provision for income taxes	1,002	1,080	(78)
Earnings from continuing operations	2,363	2,492	129
Earnings and gain from discontinued operations, net of income taxes	230	232	2
Net earnings attributable to Kraft Foods	2,590	2,721	131
Basic earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 1.48	\$ 1.56	\$ 0.08
Discontinued operations	0.15	0.15	-
Net earnings attributable to Kraft Foods	\$ 1.63	\$ 1.71	\$ 0.08
Diluted earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 1.48	\$ 1.56	\$ 0.08
Discontinued operations	0.14	0.14	-
Net earnings attributable to Kraft Foods	\$ 1.62	\$ 1.70	\$ 0.08

The following line items within the balance sheets were affected by the change in accounting policy:

	December 31, 2009		
	As Computed under LIFO	As Reported under Average Cost	Favorable / (Unfavorable)
	(in millions)		
Inventories, net	\$ 3,718	\$ 3,775	\$ (57)
Deferred income tax asset	752	730	22
Retained earnings	14,601	14,636	35

	December 31, 2008		
	As Computed under LIFO	As Reported under Average Cost	Favorable / (Unfavorable)
	(in millions)		
Inventories, net	\$ 3,729	\$ 3,881	\$ (152)
Deferred income tax asset	861	804	57
Retained earnings	13,345	13,440	95

As a result of the accounting change, retained earnings as of January 1, 2007, decreased from \$11,128 million, as computed using the LIFO method, to \$11,109 million using the average cost method.

There was no impact to net cash provided by operating activities as a result of this change in accounting policy.

Long-Lived Assets:

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.

We review long-lived assets, including amortizable intangible assets, for impairment when conditions exist that indicate the carrying amount of the assets may not be fully recoverable. We perform undiscounted operating cash flow analyses to determine if an impairment exists. When testing assets held for use for impairment, we group assets and liabilities at the lowest level for which cash flows are separately identifiable. If an impairment is determined to exist, the loss is calculated based on estimated 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.

Software Costs:

We capitalize 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 and amortized on a straight-line basis over the estimated useful lives of the software, which do not exceed seven years.

Goodwill and Intangible Assets:

We test goodwill and non-amortizable intangible assets at least annually for impairment. We have recognized goodwill in our reporting units, which are generally one level below our operating segments. We use a two step process to test goodwill at the reporting unit level. The first step involves

a comparison of the estimated fair value of each reporting unit with its carrying value. Fair value is estimated using discounted cash flows of the reporting unit based on planned growth rates, and estimates of discount rates and residual values. If the carrying value exceeds the fair value, the second step of the process is necessary. The second step measures the difference between the carrying value and implied fair value of goodwill. To test non-amortizable intangible assets for impairment, we compare the fair value of the intangible asset with its carrying value. Fair value of non-amortizable intangible assets is determined using our planned growth rates, and estimates of discount rates and royalty rates. If the carrying value exceeds fair value, the intangible asset is considered impaired and is reduced to fair value. Definite-lived intangible assets are amortized over their estimated useful lives.

We perform our annual impairment review of goodwill and non-amortizable intangible assets as of October 1 each year. The basis of our valuation methodology for estimating the fair value of our 20 reporting units is a 20-year projection of discounted cash flows that is based on our annual strategic planning process. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans, industry and economic conditions. For our reporting units within our Kraft Foods North America and Kraft Foods Europe geographic units, we used a market-participant, weighted-average cost of capital of 7.5% to discount the projected cash flows of those operations. For our reporting units within our Kraft Foods Developing Markets geographic unit, we used a risk-rated discount rate of 10.5%.

Insurance and Self-Insurance:

We use a combination of insurance and self-insurance for a number of risks, including workers' compensation, general liability, automobile liability, product liability and our obligation for employee healthcare benefits. Liabilities associated with the risks are estimated by considering historical claims experience and other actuarial assumptions.

Revenue Recognition:

We recognize revenues when title and risk of loss pass to customers, which generally occurs upon shipment or delivery of goods. Revenues are recorded net of consumer incentives and trade promotions and include all shipping and handling charges billed to customers. Kraft Foods' shipping and handling costs are classified as part of cost of sales. A provision for product returns and allowances for bad debts are also recorded as reductions to revenues within the same period that the revenue is recognized.

Excise Taxes:

Effective January 1, 2009, we changed our classification of certain excise taxes to a net presentation within cost of sales. In prior years, excise taxes were classified gross within net revenues and cost of sales. With this change, we report all of our excise and similar taxes using the net presentation method. We made this change to better align our net revenues between various countries and to provide better clarity to net revenues and margins. As a result, we removed \$269 million in 2008 and \$276 million in 2007 from net revenues, and netted the amounts within cost of sales. If we had not made this change, in 2009, net revenues of \$40,386 million would have been \$40,621 million, and cost of sales of \$25,786 million would have been \$26,021 million. This change did not have a material impact on our net revenues or cost of sales.

Marketing, Administration and Research Costs:

Marketing - We promote our products with advertising, consumer incentives and trade promotions. These programs include, but are not limited to, discounts, coupons, rebates, in-store display incentives and volume-based incentives. We expense advertising costs either in the period the advertising first takes place or as incurred. Consumer incentive and trade promotion activities are recorded as a reduction to revenues based on amounts estimated as being due to customers and consumers at the end of a period. We base these estimates principally on historical utilization and redemption rates. For interim reporting purposes, advertising and consumer incentive expenses are charged to operations as a percentage of volume, based on estimated volume and related expense for the full year. We do not defer costs on our year-end consolidated balance sheet and all marketing costs are recorded as an expense in the year incurred. Advertising expense was \$1,648 million in 2009, \$1,639 million in 2008 and \$1,471 million in 2007.

Research - We expense costs as incurred for product research and development. Research and development expense was \$477 million in 2009, \$498 million in 2008 and \$442 million in 2007.

Environmental Costs:

We are subject to laws and regulations relating to the protection of the environment. We accrue for environmental remediation obligations on an undiscounted basis when amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change. Recoveries of environmental remediation costs from third parties are recorded as assets when recovery of those costs is deemed probable. At December 31, 2009, our subsidiaries were involved in 71 active actions in the U.S. under Superfund legislation (and other similar actions) related to current operations and certain former or divested operations for which we retain liability.

Based on information currently available, we believe that the ultimate resolution of existing environmental remediation actions and our compliance in general with environmental laws and regulations will not have a material effect on our financial results. However, we cannot quantify with certainty the potential impact of future compliance efforts and environmental remediation actions.

Employee Benefit Plans:

In September 2006, new guidance was issued surrounding employers' accounting for defined benefit pension and other postretirement plans. The new guidance required us to measure plan assets and benefit obligations as of the balance sheet date beginning in 2008. We previously measured our

non-U.S. pension plans (other than certain Canadian and French pension plans) at September 30 of each year. On December 31, 2008, we recorded an after-tax decrease of \$8 million to retained earnings using the 15-month approach to proportionally allocate the transition adjustment required upon adoption of the measurement provision of the new guidance. The plan assets and benefit obligations of our pension plans and the benefit obligations of our postretirement plans are now all measured at year-end.

We provide a range of benefits to our employees and retired employees. These include pension benefits, postretirement health care benefits and postemployment benefits, consisting primarily of severance. We provide pension coverage for certain employees of our non-U.S. subsidiaries through separate plans. Local statutory requirements govern many of these plans. For salaried and non-union hourly employees hired in the U.S. after January 1, 2009, we discontinued benefits under our U.S. pension plans, and we replaced them with an enhanced company contribution to our employee savings plan. Additionally, we will be freezing the U.S. pension plans for current salaried and non-union hourly employees effective December 31, 2019. Pension accruals for all salaried and non-union employees who are currently earning pension benefits will end on December 31, 2019, and continuing pay and service will be used to calculate the pension benefits through December 31, 2019. Our projected benefit obligation decreased \$168 million in 2009, and we incurred a \$5 million curtailment charge in 2009 related to the freeze. Our U.S. and Canadian subsidiaries provide health care and other benefits to most retired employees. Local government plans generally cover health care benefits for retirees outside the U.S. and Canada. Our postemployment benefit plans cover most salaried and certain hourly employees. The cost of these plans is charged to expense over the working life of the covered employees.

Financial Instruments:

As we operate globally, we use certain financial instruments to manage our foreign currency exchange rate, commodity price and interest rate risks. We monitor and manage these exposures as part of our overall risk management program. Our risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results. We maintain foreign currency, commodity price and interest rate risk management strategies that seek to reduce significant, unanticipated earnings fluctuations that may arise from volatility in foreign currency exchange rates, commodity prices and interest rates, principally through the use of derivative instruments.

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. We formally document the nature of and relationships between the hedging instruments and hedged items, as well as our 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 we deem it probable that the forecasted transaction will not occur, we recognize the gain or loss in earnings currently.

By using derivatives to hedge exposures to changes in exchange rates, commodity prices and interest rates, we have exposure on these derivatives to credit and market risk. We are exposed to credit risk that the counterparty might fail to fulfill its performance obligations under the terms of the derivative contract. We minimize our credit risk by entering into transactions with high quality counterparties with investment grade credit ratings, limiting the amount of exposure we have with each counterparty and monitoring the financial condition of our counterparties. In October 2008, one of our counterparties, Lehman Brothers Commercial Corporation, filed for bankruptcy. Consequently, we wrote off an insignificant asset related to derivatives held with them. This did not have a significant impact on our foreign currency risk management program. We also maintain a policy of requiring that all significant, non-exchange traded derivative contracts with a duration greater than one year be governed by an International Swaps and Derivatives Association master agreement. Market risk is the risk that the value of the financial instrument might be adversely affected by a change in foreign currency exchange rates, commodity prices or interest rates. We manage market risk by incorporating monitoring parameters within our risk management strategy that limit the types of derivative instruments and derivative strategies we use, and the degree of market risk that may be undertaken by the use of derivative instruments.

We record derivative financial instruments at fair value in our consolidated balance sheets as either current assets or current liabilities. Cash flows from hedging instruments are classified in the same manner as the affected hedged item in the consolidated statements of cash flows.

Commodity cash flow hedges - We are exposed to price risk related to forecasted purchases of certain commodities that we primarily use as raw materials. Accordingly, we use commodity forward contracts as cash flow hedges, primarily for meat, coffee, dairy, sugar, cocoa and wheat. Commodity forward contracts generally qualify for the normal purchase exception under guidance for derivative instruments and hedging activities, and therefore are not subject to its provisions. We use commodity futures and options to hedge the price of certain input costs, including dairy, coffee, cocoa, wheat, corn products, soybean oils, meat products, sugar, natural gas and heating oil. Some of these derivative instruments are highly effective and qualify for hedge accounting treatment. We also sell commodity futures to unprice future purchase commitments, and we occasionally use related futures to cross-hedge a commodity exposure. We are not a party to leveraged derivatives and, by policy, do not use financial instruments for speculative purposes.

For those derivative instruments that are highly effective and qualify for hedge accounting treatment, we defer the effective portion of unrealized gains and losses on commodity futures and option contracts as a component of accumulated other comprehensive earnings / (losses). We recognize the

deferred portion as a component of cost of sales when the related inventory is sold. Ineffectiveness is directly recorded as a component of cost of sales. For the derivative instruments that we consider economic hedges but do not designate for hedge accounting treatment, we recognize gains and losses directly as a component of cost of sales.

Foreign currency cash flow hedges - We use various financial instruments to mitigate our exposure to changes in exchange rates from third-party and intercompany actual and forecasted transactions. These instruments include forward foreign exchange contracts, foreign currency swaps and foreign currency options. Based on the size and location of our businesses, we use these instruments to hedge our exposure to certain currencies, including the euro, Swiss franc, British pound and Canadian dollar.

For those derivative instruments that are highly effective and qualify for hedge accounting treatment, we defer the effective portion of unrealized gains and losses associated with forward, swap and option contracts as a component of accumulated other comprehensive earnings / (losses) until the underlying hedged transactions are reported in earnings. We recognize the deferred portion as a component of cost of sales when the related inventory is sold or as interest and other expense, net for our hedges of intercompany loans, when the payments are made. For those derivative instruments that we consider economic hedges but do not designate for hedge accounting treatment, we recognize gains and losses directly as a component of cost of sales or interest and other expense, net, depending on the nature of the underlying transaction.

Interest rate cash flow and fair value hedges - We manage interest rate volatility by modifying the repricing or maturity characteristics of certain liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate liabilities appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by our gains or losses on the derivative instruments that are linked to these hedged liabilities.

We use derivative instruments, including interest rate swaps that have indices related to the pricing of specific liabilities as part of our interest rate risk management strategy. As a matter of policy, we do not use highly leveraged derivative instruments for interest rate risk management. We use interest rate swaps to economically convert a portion of our nonprepayable fixed-rate debt into variable-rate debt. Under the interest rate swap contracts, we agree with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts, which is calculated based on an agreed-upon notional amount. We also use interest rate swaps to hedge the variability of interest payment cash flows on a portion of our future debt obligations. Substantially all of these derivative instruments are highly effective and qualify for hedge accounting treatment.

For those derivative instruments that are highly effective and qualify for hedge accounting treatment, we either record the impacts in current period earnings or defer the effective portion of unrealized gains and losses as a component of accumulated other comprehensive earnings / (losses), depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge. For fair value hedges, we record both (i) the gains or losses on interest rate swaps and (ii) the corresponding changes in fair value of the hedged long-term debt directly as a component of interest and other expense, net. For cash flow hedges, we recognize the deferred portion as a component of interest and other expense, net when we incur the interest expense. The ineffective portion is directly recorded as a component of interest and other expense, net. For the derivative instruments that we consider economic hedges but do not designate for hedge accounting treatment, we recognize gains and losses directly as a component of interest and other expense, net.

Hedges of net investments in foreign operations - We have numerous investments in foreign subsidiaries. The net assets of these subsidiaries are exposed to volatility in foreign currency exchange rates. We use foreign-currency-denominated debt to hedge our net investment in foreign operations against adverse movements in exchange rates. We designated our euro denominated borrowings as a net investment hedge of a portion of our overall European operations. The gains and losses on our net investment in these designated European operations are economically offset by losses and gains on our euro denominated borrowings. The change in the debt's fair value is recorded in the currency translation adjustment component of accumulated other comprehensive earnings / (losses).

Guarantees:

Authoritative guidance related to guarantor's accounting and disclosure requirements for guarantees requires us to disclose certain guarantees and to recognize a liability for the fair value of the obligation of qualifying guarantee activities. See Note 13, *Commitments and Contingencies* for a further discussion of guarantees.

Income Taxes:

Prior to our spin-off from Altria, we were included in Altria's consolidated federal income tax return. We generally computed income taxes on a separate company basis; however, some of our foreign tax credits, capital losses and other credits could not be used on a separate company basis. To the extent that Altria used our foreign tax credits and other tax benefits in its consolidated federal income tax return, we recognized the benefit in the calculation of our provision for income taxes. This benefit was approximately \$270 million in 2007. We made payments to, or were reimbursed by, Altria for the tax effects resulting from being included in Altria's tax return. As of March 31, 2007, we were no longer a member of the Altria consolidated tax return group. We file our own federal consolidated income tax returns. As a result of the spin-off, Altria transferred our federal tax contingencies to our balance sheet and related interest income of \$77 million in 2007. Additionally, during 2007, Altria paid us \$305 million for the federal tax contingencies held by them, less the impact of federal reserves reversed due to the adoption of new guidance, discussed below, which addressed accounting for the uncertainty in income

taxes. This amount was reflected as a component of the change in other current assets within the net cash provided by operating activities section of the consolidated statement of cash flows.

In July 2006, new guidance was issued which addressed accounting for the uncertainty in income taxes. We adopted the guidance effective January 1, 2007. The guidance clarified when tax benefits should be recorded in the financial statements and provided measurement criteria for valuing such benefits. In order for us to recognize benefits, our tax position must be more likely than not to be sustained upon audit. The amount we recognize is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Before the implementation of the guidance, we established additional provisions for certain positions that were likely to be challenged even though we believe that those existing tax positions were fully supportable. The adoption of this guidance resulted in an increase to equity as of January 1, 2007 of \$213 million.

We recognize deferred tax assets for deductible temporary differences, operating loss carryforwards and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

Reclassification:

In 2009, we separately disclosed other non-cash expense, net within the net cash provided by operating activities section of the consolidated statement of cash flows and made conforming changes to the presentation in prior years. This change did not have an impact on cash provided by operating activities for any of the periods presented. In 2009, we also changed our cost assignment methodology for headquarter functional costs across our operating structure. As a result, we reclassified \$188 million in 2008 and \$83 million in 2007 from marketing, administration and research costs to cost of sales. This change did not have an impact on net earnings for any of the periods presented.

New Accounting Pronouncements:

In September 2006, new guidance was issued on fair value measurements. The guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The effective date of the guidance for items recognized or disclosed at fair value on an annual or more frequently recurring basis was January 1, 2008. The effective date of the guidance for all other nonfinancial assets and liabilities was January 1, 2009. As such, we partially adopted the guidance effective January 1, 2008. The partial adoption of this guidance did not have a material impact on our financial statements. We adopted the remaining provisions effective January 1, 2009. This adoption affects the way that we calculate fair value for our annual impairment review of goodwill and non-amortizable intangible assets, and when conditions exist that require us to calculate the fair value of long-lived assets; however, this adoption did not have a material impact on our financial statements.

In December 2007, new guidance was issued on business combinations. We adopted the guidance effective January 1, 2009. The guidance requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose all information needed by investors to understand the nature and financial effect of the business combination. The adoption of this guidance did not have a material impact on our financial statements.

In December 2007, new guidance was also issued on noncontrolling interests in consolidated financial statements. We adopted the guidance effective January 1, 2009. The guidance requires us to classify noncontrolling interests in subsidiaries as a separate component of equity instead of within other liabilities. Additionally, transactions between an entity and noncontrolling interests must be treated as equity transactions. Therefore, they no longer are removed from net income, but rather are accounted for as equity. The adoption of this guidance did not have a material impact on our financial statements.

In June 2008, new guidance was issued to assist in determining whether instruments granted in share-based payment transactions are participating securities. We adopted the guidance effective January 1, 2009. The guidance considers unvested share-based payment awards with the right to receive nonforfeitable dividends, or their equivalents, participating securities that should be included in the calculation of EPS under the two-class method. Accordingly, our restricted and deferred stock awards are now considered participating units in our calculation of EPS. The adoption of this guidance did not have a material impact on our financial statements.

In May 2009, new guidance was issued on subsequent events that requires management to evaluate subsequent events through the date the financial statements are either issued or available to be issued, depending on the company's expectation of whether it will widely distribute its financial statements to its shareholders and other financial statement users. Companies are required to disclose the date through which subsequent events have been evaluated. We adopted the guidance effective June 30, 2009.

In June 2009, new guidance was issued on the consolidation of variable interest entities. The provisions are effective for Kraft Foods as of January 1, 2010. This guidance improves the financial reporting by enterprises involved with variable interest entities. We do not expect the adoption of this guidance to have a material impact on our financial statements.

Acquisitions and Divestitures:

Acquisitions and Divestitures: (USD \$)	12 Months Ended 12/31/2009
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Acquisitions and Divestitures:

Note 2. Acquisitions and Divestitures:

Cadbury Acquisition:

On January 19, 2010, we announced the terms of our final offer for each outstanding ordinary share of Cadbury plc ("Cadbury"), including each ordinary share represented by an American Depositary Share ("Cadbury ADS"), and the Cadbury board of directors recommended that Cadbury shareholders accept the terms of the final offer. Under the terms of the offer, we agreed to pay Cadbury shareholders 500 pence in cash and 0.1874 shares of Kraft Foods Common Stock per Cadbury ordinary share validly tendered and 2,000 pence in cash and 0.7496 shares of Kraft Foods Common Stock per Cadbury ADS validly tendered. This valued each Cadbury ordinary share at 840 pence and each Cadbury ADS at £33.60 (based on the closing price of \$29.58 for a share of Kraft Foods Common Stock on January 15, 2010 and an exchange rate of \$1.63 per £1.00) and valued the entire issued share capital of Cadbury at £11.9 billion (approximately \$19.4 billion) on January 15, 2010, the last trading day before the publication of our final offer. The combination of Kraft Foods and Cadbury will create a global powerhouse in snacks, confectionery and quick meals with a rich portfolio of iconic brands.

On February 2, 2010, all of the conditions to the offer were satisfied or validly waived, the initial offer period expired and a subsequent offer period immediately began. At that point, we had received acceptances of 71.73% of the outstanding Cadbury ordinary shares, including those represented by Cadbury ADSs. The subsequent offer period remains open until further notice and at least 14 days of notice will be given if Kraft Foods decides to close the offer. As of February 15, 2010, we had received acceptances of 1,262,356,520 shares representing 91.02% of the outstanding Cadbury ordinary shares, including those represented by Cadbury ADSs. As we have received acceptances of over 90% of Cadbury shares, we are in the process of acquiring the remaining Cadbury ordinary shares that are not tendered in the offer, including those represented by Cadbury ADSs, through a compulsory acquisition procedure under the United Kingdom Companies Act of 2006, as amended. Additionally, as a condition of the EU Commission's approval of the Cadbury acquisition, we are required to divest confectionery operations in Poland and Romania. As part of our acquisition of Cadbury, we expensed approximately \$40 million in transaction related fees in 2009 as we incurred them, and we also incurred \$40 million in financing fees in 2009 related to the acquisition.

The accounting for our Cadbury acquisition was incomplete at the time we issued our financial statements. Accordingly, it is impracticable for us to make certain business combination disclosures. At the time of filing, it was impracticable for us to: A) Complete a reconciliation of Cadbury's IFRS financial statements to U.S. GAAP. Accordingly, we were unable to present the acquisition date fair value of assets acquired and liabilities assumed, or assets and liabilities arising from contingencies. B) Calculate the amount of goodwill and intangibles acquired and the total amount of goodwill that is expected to be deductible for tax purposes. C) Provide proforma segment disclosures. And D) present supplemental proforma combined information on a U.S. GAAP basis for the most recent period presented.

Pizza Divestiture:

On January 4, 2010, we entered into an agreement to sell the assets of our North American frozen pizza business ("Frozen Pizza") to Nestlé USA, Inc. ("Nestlé") for total consideration of \$3.7 billion. Our Frozen Pizza business is a component of our U.S. Convenient Meals and Canada & North America Foodservice segments. The sale, which is subject to customary conditions, including regulatory clearances, includes the *DiGiorno*, *Tombstone* and *Jack's* brands in the U.S., the *Delissio* brand in Canada and the *California Pizza Kitchen* trademark license. It also includes two Wisconsin manufacturing facilities (Medford and Little Chute) and the leases for the pizza depots and delivery trucks. It is estimated that approximately 3,400 of our employees will transfer with the business to Nestlé. We anticipate that the transaction will close in the first quarter of 2010.

At December 31, 2009, the Frozen Pizza business did not meet the criteria to be considered held-for-sale. Beginning in the first quarter of 2010, the results of the Frozen Pizza business will be presented as a discontinued operation in our consolidated financial statements and prior periods will be restated in a consistent manner. The following reflects the summary results for the Frozen Pizza business that will be treated as a discontinued operation going forward:

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Net revenues	\$ 1,632	\$ 1,440	\$ 1,278
Earnings from operations before income taxes	341	267	237
Provision for income taxes	(123)	(97)	(87)
Net earnings from operations of the Frozen Pizza business	\$ 218	\$ 170	\$ 150

Earnings from operations before income taxes as presented exclude stranded overheads of \$108 million in 2009, \$112 million in 2008 and \$111 million in 2007.

Post Cereals Split-off:

On August 4, 2008, we completed the split-off of the Post cereals business into Ralcorp Holdings, Inc. ("Ralcorp"), after an exchange with our shareholders. Accordingly, the Post cereals business prior period results were reflected as discontinued operations on the consolidated statement of earnings. The exchange was expected to be tax-free to participating shareholders for U.S. federal income tax purposes.

In this split-off transaction, approximately 46.1 million shares of Kraft Foods Common Stock were tendered for \$1,644 million. Our shareholders had the option to exchange some or all of their shares of Kraft Foods Common Stock and receive shares of common stock of Cable Holdco, Inc. ("Cable Holdco"). Cable Holdco was our wholly owned subsidiary that owned certain assets and liabilities of the Post cereals business. In exchange for the contribution of the Post cereals business, Cable Holdco issued approximately \$665 million in debt securities, issued shares of its common stock and assumed a \$300 million credit facility. Upon closing, we used the cash equivalent net proceeds, approximately \$960 million, to repay debt.

The Post cereals business included such brands as *Honey Bunches of Oats*, *Pebbles*, *Shredded Wheat*, *Selects*, *Grape-Nuts* and *Honeycomb*. Under Kraft Foods, the brands in this transaction were distributed primarily in North America. In addition to the Post brands, the transaction included four manufacturing facilities, certain manufacturing equipment and approximately 1,230 employees who joined Ralcorp as part of the transaction.

Pursuant to the Post cereals business Transition Services Agreement, we provided certain sales, co-manufacturing, distribution, information technology, and accounting and finance services to Ralcorp through 2009.

Summary results of operations for the Post cereals business through August 4, 2008, were as follows:

	<u>For the Years Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(in millions)	
Net revenues	\$ 666	\$ 1,107
Earnings before income taxes	189	369
Provision for income taxes	(70)	(137)
Gain on discontinued operations, net of income taxes	926	-
Earnings and gain from discontinued operations, net of income taxes	\$ 1,045	\$ 232

The following assets of the Post cereals business were included in the Post split-off (in millions):

Inventories, net	\$ 94
Property, plant and equipment, net	425
Goodwill	1,234
Other assets	11
Other liabilities	(3)
Distributed assets of the Post cereals business	\$ 1,761

LU Biscuit Acquisition:

On November 30, 2007, we acquired the Groupe Danone S.A. global LU biscuit business ("LU Biscuit") for € 5.1 billion (approximately \$7.6 billion) in cash. The acquisition included 32 manufacturing facilities and approximately 14,000 employees. During 2008, we repaid Groupe Danone S.A. for excess cash received upon the acquisition. LU Biscuit reports results from operations on a one month lag; accordingly, there was no effect on our 2007 operating results. On a proforma basis, LU Biscuit would have contributed net revenues of \$2.8 billion during 2007, and LU Biscuit's contribution to net earnings would have been insignificant to Kraft Foods.

Other Divestitures:

In 2009, we received \$41 million in net proceeds and recorded pre-tax losses of \$6 million on the divestitures of our Balance bar operations in the U.S., a juice operation in Brazil and a plant in Spain. We recorded after-tax gains of \$58 million on these divestitures, primarily due to the differing book and tax bases of our Balance bar operations.

In 2008, we received \$153 million in net proceeds, and recorded pre-tax losses of \$92 million on divestitures, primarily related to a Nordic and Baltic snacks operation and four operations in Spain. We recorded after-tax losses of \$64 million on these divestitures.

Included in the 2008 divestitures were the following, which were a condition of the EU Commission's approval of our LU Biscuit acquisition:

- We divested a biscuit operation in Spain. From this divestiture, we received \$86 million in net proceeds and recorded pre-tax losses of \$74 million.
- We divested another biscuit operation in Spain and a trademark in Hungary that we had previously acquired as part of the LU Biscuit acquisition. As such, the impacts of these divestitures were reflected as adjustments to the purchase price allocations.

In 2007, we received \$216 million in net proceeds and recorded pre-tax gains of \$14 million on the divestitures of our hot cereal assets and trademarks, our sugar confectionery assets in Romania and related trademarks and our flavored water and juice brand assets and related trademarks, including *Veryfine* and *Fruit2O*. We recorded an after-tax loss of \$5 million on these divestitures to reflect the differing book and tax bases of our hot cereal assets and trademarks divestiture.

These gains and losses on divestitures do not reflect the related asset impairment charges discussed in Note 5, *Goodwill and Intangible Assets*.

The aggregate operating results of the divestitures discussed above, other than the divestiture of the *Post* cereals business, were not material to our financial statements in any of the periods presented. Refer to Note 16, *Segment Reporting*, for details of the gains and losses on divestitures by segment.

Inventories:

Inventories: (USD \$)	12 Months Ended 12/31/2009
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Inventories: **Note 3. Inventories:**

Inventories at December 31, 2009 and 2008
were:

	<u>2009</u>	(in millions)	<u>2008</u>
Raw materials	\$ 1,410		\$ 1,568
Finished product	<u>2,365</u>		<u>2,313</u>
Inventories, net	<u>\$ 3,775</u>		<u>\$ 3,881</u>

Property, Plant and Equipment:

Property, Plant and Equipment:
(USD \$)

12 Months Ended
12/31/2009

Property, Plant and Equipment:

Note 4. Property, Plant and Equipment:

Property, plant and equipment at December 31, 2009 and 2008 were:

	<u>2009</u>	(in millions)	<u>2008</u>
Land and land improvements	\$ 492		\$ 462
Buildings and building equipment	4,231		3,913
Machinery and equipment	13,872		12,590
Construction in progress	<u>828</u>		<u>850</u>
	19,423		17,815
Accumulated depreciation	<u>(8,730)</u>		<u>(7,898)</u>
Property, plant and equipment, net	<u>\$ 10,693</u>		<u>\$ 9,917</u>

Refer to Note 5, *Goodwill and Intangible Assets*, for asset impairment charges taken against property, plant and equipment.

Goodwill and Intangible Assets:

Goodwill and Intangible Assets: 12 Months Ended
(USD \$) 12/31/2009

Goodwill and Intangible Assets:

Note 5. Goodwill and Intangible Assets:

At December 31, 2009 and 2008, goodwill by reportable segment was:

	2009	(in millions)	2008
Kraft Foods North America:			
U.S. Beverages	\$ 1,290		\$ 1,290
U.S. Cheese	3,000		3,000
U.S. Convenient Meals	1,460		1,460
U.S. Grocery	3,046		3,046
U.S. Snacks	6,948		6,965
Canada & N.A. Foodservice	2,340		2,306
Kraft Foods Europe ⁽¹⁾	6,756		5,893
Kraft Foods Developing Markets	3,924		3,621
Total goodwill	\$ 28,764		\$ 27,581

(1) This segment was formerly known as European Union.

As discussed in Note 16, *Segment Reporting*, we implemented changes to our operating structure in 2009. As a result of these changes, we aligned the reporting of our Central Europe operations into our Kraft Foods Developing Markets segment and moved \$1,534 million of goodwill from Kraft Foods Europe to Kraft Foods Developing Markets.

	2009	(in millions)	2008
Non-amortizable intangible assets	\$ 13,262		\$ 12,758
Amortizable intangible assets	278		254
	13,540		13,012
Accumulated amortization	(111)		(86)
Intangible assets, net	\$ 13,429		\$ 12,926

Non-amortizable intangible assets consist principally of brand names purchased through our acquisitions of Nabisco Holdings Corp., LU Biscuit and the Spanish and Portuguese operations of United Biscuits. Amortizable intangible assets consist primarily of trademark licenses, customer-related intangibles and non-compete agreements.

The movements in goodwill and intangible assets were:

	2009		2008	
	Goodwill	Intangible Assets, at cost (in millions)	Goodwill	Intangible Assets, at cost
Balance at January 1	\$ 27,581	\$ 13,012	\$ 31,193	\$ 12,262
Changes due to:				
Foreign currency	1,200	544	(1,062)	(516)
Acquisitions	-	-	(1,187)	1,356
Divestitures	(17)	-	(1,272)	(37)
Asset impairments	-	(12)	(35)	(53)
Other	-	(4)	(56)	-
Balance at December 31	\$ 28,764	\$ 13,540	\$ 27,581	\$ 13,012

Changes to goodwill and intangible assets during 2009 were:

- Divestitures - We reduced goodwill by \$17 million due to the divestiture of our *Balance* bar operations in the U.S.

- Asset impairments - During our 2009 review of goodwill and non-amortizable intangible assets, we recorded a \$12 million charge for the impairment of intangible assets in the Netherlands.

Changes to goodwill and intangible assets during 2008 were:

- Acquisitions - We decreased goodwill by \$1,187 million and increased intangible assets by \$1,356 million primarily due to refinements of preliminary allocations of the purchase price for our acquisition of *LU Biscuit*. The allocations were based upon appraisals that were finalized in the third quarter of 2008.
- Divestitures - We reduced goodwill by \$1,234 million due to the split-off of our *Post* cereals business, and we reduced goodwill by \$38 million and intangible assets by \$37 million due to the divestiture of an operation in Spain.
- Asset impairments - We recorded asset impairment charges of \$34 million to goodwill and \$1 million to intangible assets in connection with the divestiture of a Nordic and Baltic snacks operation. We also recorded asset impairment charges of \$1 million to goodwill and \$8 million to intangible assets in connection with the anticipated divestiture of a juice operation in Brazil. In addition, during our 2008 review of goodwill and non-amortizable intangible assets, we recorded a \$44 million charge for the impairment of intangible assets in the Netherlands, France and Puerto Rico.
- Other - We reduced goodwill by \$56 million primarily related to a reconciliation of our inventory of deferred tax items that also resulted in a write-down of our net deferred tax liabilities.

Amortization expense for intangible assets was \$26 million in 2009, \$23 million in 2008 and \$13 million in 2007. We currently estimate amortization expense for each of the next five years to be approximately \$15 million or less.

Annual Impairment Review & Asset Impairment Charges:

As a result of our 2009 annual review of goodwill and non-amortizable intangible assets, we recorded a \$12 million charge for the impairment of intangible assets in the Netherlands. In addition, during 2009, we recorded a \$9 million asset impairment charge to write off an investment in Norway. We recorded the aggregate charges within asset impairment and exit costs. *During our 2009 impairment review, we also noted that the following three reporting units were the most sensitive to near-term changes in our discounted cash flow assumptions:*

	Percentage of Excess Fair Value over Carrying Value		October 1, 2009 Carrying Value of Goodwill (in millions)
U.S. Salty Snacks	11%	\$	1,186
N.A. Foodservice	22%		861
Europe Biscuits	11%		2,555

*During the fourth quarter of 2008, we completed the annual review of goodwill and non-amortizable intangible assets and recorded a \$44 million charge for the impairment of intangible assets in the Netherlands, France and Puerto Rico. During our 2008 impairment review, we determined that our Europe Biscuits reporting unit was the most sensitive to near-term changes in our discounted cash flow assumptions, as it contains a significant portion of the goodwill recorded upon our 2007 acquisition of *LU Biscuit*. In addition, in December 2008, we reached a preliminary agreement to divest a juice operation in Brazil and reached an agreement to sell a cheese plant in Australia. In anticipation of divesting the juice operation in Brazil, we recorded an asset impairment charge of \$13 million in the fourth quarter of 2008. The charge primarily included the write-off of associated intangible assets of \$8 million and property, plant and equipment of \$4 million. In anticipation of selling the cheese plant in Australia, we recorded an asset impairment charge of \$28 million to property, plant and equipment in the fourth quarter of 2008. Additionally, in 2008, we divested a Nordic and Baltic snacks operation and incurred an asset impairment charge of \$55 million in connection with the divestiture. This charge primarily included the write-off of associated goodwill of \$34 million and property, plant and equipment of \$16 million. We recorded the aggregate charges within asset impairment and exit costs.*

In 2007, we divested our flavored water and juice brand assets and related trademarks. In recognition of the divestiture, we recorded a \$120 million asset impairment charge for these assets. The charge primarily included the write-off of associated intangible assets of \$70 million and property, plant and equipment of \$47 million and was recorded within asset impairment and exit costs.

Restructuring Costs:

Restructuring Costs: (USD \$)	12 Months Ended 12/31/2009
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Restructuring Costs:

Note 6. Restructuring Costs:

Cost Savings Initiatives

We incurred costs associated with our Cost Savings Initiatives of \$318 million in 2009. These charges were recorded in operations, primarily within the segment operating income of Kraft Foods Europe with the remainder spread across all other segments. The Kraft Foods Europe charges were largely a result of the reorganization of our European operations discussed below. Cost Savings Initiatives include exit, disposal and implementation costs. Even though implementation costs were directly attributable to exit and disposal costs, they did not qualify for special accounting treatment as exit or disposal activities. In 2009, our Cost Savings Initiatives primarily included severance charges for benefits received by terminated employees, associated benefit plan costs and other related activities.

2004-2008 Restructuring Program

In 2008, we completed our five-year restructuring program (the "Restructuring Program"). The Restructuring Program's objectives were to leverage our global scale, realign and lower our cost structure, and optimize capacity. As part of the Restructuring Program, we:

- incurred \$3.0 billion in pre-tax charges reflecting asset disposals, severance and implementation costs;
- announced the closure of 35 facilities and announced the elimination of approximately 18,600 positions; and
- will use cash to pay for \$2.0 billion of the \$3.0 billion in charges.

In 2009, we reversed \$85 million of previously accrued Restructuring Program charges. Those reversals related to the following:

- We sold a plant in Spain that we previously announced we would close under our Restructuring Program. Accordingly, we reversed \$35 million in Restructuring Program charges, primarily related to severance, and recorded a \$17 million loss on the divestiture of the plant in 2009. The reversal occurred in our Kraft Foods Europe segment.
- We also reversed \$50 million in Restructuring Program charges, primarily due to planned position eliminations that did not occur. These were primarily the result of redeployment and natural attrition. The majority of these reversals occurred in our Kraft Foods Europe segment, with the remainder spread across all other segments.

We incurred charges under the Restructuring Program of \$989 million in 2008 and \$459 million in 2007. Since the inception of the Restructuring Program, we have paid cash of \$1.7 billion of the \$2.0 billion in expected cash payments, including \$176 million paid in 2009. At December 31, 2009, we had an accrual of \$270 million, and we had eliminated approximately 17,300 positions under the Restructuring Program.

In 2008, we implemented a new operating structure built on three core elements: business units, shared services that leverage the scale of our global portfolio, and a streamlined corporate staff. Within the new structure, business units now have full P&L accountability and are staffed accordingly. This also ensures that we are putting our resources closer to where we make decisions that affect our consumers and customers. Our corporate and shared service functions streamlined their organizations to focus on core activities that can more efficiently support the goals of the business units. The intent was to simplify, streamline and increase accountability, with the ultimate goal of generating reliable growth for Kraft Foods. In total, we eliminated approximately 1,400 positions as we streamlined our headquarter functions.

The reorganization of our European operations to function on a pan-European centralized category management and value chain model was completed in 2009 for our Chocolate, Coffee and Cheese categories. Significant progress was made in 2009 related to the integration of our Europe Biscuits business, and we expect the integration to be completed by mid-2010. The European Principal Company ("EPC") will manage the European categories centrally and make decisions for all aspects of the value chain, except for sales and distribution. The European subsidiaries will execute sales and distribution locally, and the local production companies will act as toll manufacturers on behalf of the EPC. The EPC legal entity has been incorporated as Kraft Foods Europe GmbH in Zurich, Switzerland. As part of the reorganization, we incurred \$32 million of severance costs, \$25 million of implementation costs and \$56 million of other non-recurring costs during 2009; we incurred \$16 million of restructuring costs, \$39 million of implementation costs and \$11 million of other non-recurring costs during 2008; and we incurred \$21 million of restructuring costs, \$24 million of implementation costs and \$10 million of other non-recurring costs during 2007. Through 2009, we have incurred aggregate charges of \$241 million related to our Kraft Foods Europe Reorganization, and we expect to incur approximately \$40 million in additional charges in 2010 to complete the integration of the Europe Biscuits business. In 2009, these charges were recorded within cost of sales and marketing, administration and research costs. The 2008 and 2007 restructuring and implementation costs were included in the total Restructuring Program charges. Other non-recurring costs relating to our Kraft Foods Europe Reorganization were recorded as marketing, administration and research costs. Management believes the disclosure of implementation and other non-recurring charges provides readers of our financial statements greater transparency to the total costs of our Kraft Foods Europe Reorganization.

Restructuring Costs:

Under the Restructuring Program, we recorded asset impairment and exit costs of \$884 million during 2008 and \$332 million during 2007. Restructuring liability activity for the years ended December 31, 2009 and 2008 was:

	Severance	Asset Write-downs (in millions)	Other	Total
Liability balance, January 1, 2008	\$ 154	\$ -	\$ 16	\$ 170
Charges	590	195	99	884
Cash (spent) / received	(255)	33	(71)	(293)
Charges against assets	(30)	(214)	2	(242)
Currency	(15)	(14)	(1)	(30)
Liability balance, December 31, 2008	444	-	45	489
Reversal of charges	(77)	(4)	(4)	(85)
Cash (spent) / received	(162)	1	(15)	(176)
Currency	40	3	(1)	42
Liability balance, December 31, 2009	\$ 245	\$ -	\$ 25	\$ 270

Our 2009 activity was related to the aforementioned reversal of \$85 million and cash outflows on prior year Restructuring Program charges. Our prior year severance charges included the cost of benefits received by terminated employees. Severance charges against assets primarily related to incremental pension costs, which reduced prepaid pension assets. Asset impairment write-downs were caused by plant closings and related activity. Cash received on asset write-downs reflected the higher than anticipated net proceeds from the sales of assets previously written-down under the Restructuring Program. Other prior year costs related primarily to the renegotiation of supplier contract costs, workforce reductions associated with facility closings and the termination of leasing agreements.

Implementation Costs:

Implementation costs were directly attributable to exit and disposal costs; however, they did not qualify for special accounting treatment as exit or disposal activities. These costs primarily included the discontinuance of certain product lines, incremental expenses related to the closure of facilities and the reorganization of our European operations discussed above. Management believes the disclosure of implementation charges provides readers of our financial statements greater transparency to the total costs of our Restructuring Program.

Implementation costs associated with the Restructuring Program were:

	2008	2007
	(in millions)	
Cost of sales	\$ 38	\$ 67
Marketing, administration and research costs	67	60
Total implementation costs	\$ 105	\$ 127

Total Restructuring Program Costs:

We included the asset impairment, exit and implementation costs discussed above, for the years ended December 31, 2008 and 2007 in segment operating income as follows:

	For the Year Ended December 31, 2008		
	Restructuring Costs	Implementation Costs	Total
	(in millions)		
Kraft Foods North America:			
U.S. Beverages	\$ 59	\$ 8	\$ 67
U.S. Cheese	31	7	38
U.S. Convenient Meals	31	7	38
U.S. Grocery	36	5	41
U.S. Snacks	72	9	81
Canada & N.A. Foodservice	100	10	110
Kraft Foods Europe	418	56	474
Kraft Foods Developing Markets	137	3	140
Total - continuing operations	884	105	989
Discontinued operations	-	-	-
Total	\$ 884	\$ 105	\$ 989

	For the Year Ended December 31, 2007		
	Restructuring Costs	Implementation Costs	Total
	(in millions)		
Kraft North America:			
U.S. Beverages	\$ 12	\$ 7	\$ 19
U.S. Cheese	50	25	75
U.S. Convenient Meals	20	15	35

U.S. Grocery	25	7	32
U.S. Snacks	17	15	32
Canada & N.A. Foodservice	50	2	52
Kraft Foods Europe	108	44	152
Kraft Foods Developing Markets	38	12	50
Total - continuing operations	320	127	447
Discontinued operations	12	-	12
Total	\$ 332	\$ 127	\$ 459

Debt and Borrowing Arrangements:

Debt and Borrowing Arrangements: (USD \$) 12 Months Ended 12/31/2009

Debt and Borrowing Arrangements: **Note 7. Debt and Borrowing Arrangements:**

Short-Term Borrowings:

At December 31, 2009 and 2008, our short-term borrowings and related average interest rates consisted of:

	2009		2008	
	Amount Outstanding (in millions)	Average Year-End Rate	Amount Outstanding (in millions)	Average Year-End Rate
Commercial paper	\$ 262	0.5%	\$ 606	2.6%
Bank loans	191	10.5%	291	13.0%
Total short-term borrowings	\$ 453		\$ 897	

The fair values of our short-term borrowings at December 31, 2009 and 2008, based upon current market interest rates, approximate the amounts disclosed above.

Borrowing Arrangements:

On November 30, 2009, we entered into a revolving credit agreement for a \$4.5 billion three-year senior unsecured revolving credit facility. The agreement replaced our former revolving credit agreement, which was terminated upon the signing of the new agreement. We intend to use the revolving credit facility for general corporate purposes, including for working capital purposes, and to support our commercial paper issuances. No amounts have been drawn on the facility.

The revolving credit agreement requires us to maintain a minimum total shareholders' equity, excluding accumulated other comprehensive earnings / (losses), of at least \$23.0 billion. Upon the completion of our acquisition of Cadbury, this covenant will increase by 75% of any increase in our total shareholders' equity as a direct result of a) our issuance of certain types of equity securities to finance the acquisition; or b) our refinancing certain indebtedness. At December 31, 2009, our total shareholders' equity, excluding accumulated other comprehensive earnings / (losses), was \$29.8 billion. We expect to continue to meet this covenant. The revolving credit agreement also contains customary representations, covenants and events of default. However, the revolving credit facility has no other financial covenants, credit rating triggers or provisions that could require us to post collateral as security.

In addition to the above, some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to \$1.5 billion at December 31, 2009. Borrowings on these lines amounted to \$191 million at December 31, 2009 and \$291 million at December 31, 2008.

On November 9, 2009, we entered into an agreement for a £5.5 billion (approximately \$8.9 billion) 364-day senior unsecured bridge facility (the "Cadbury Bridge Facility"). On January 18, 2010, we amended the agreement to increase the Cadbury Bridge Facility to an aggregate of £7.1 billion. On February 11, 2010, after the issuance of \$9.5 billion of senior unsecured notes, we amended the agreement again to decrease the Cadbury Bridge Facility to an aggregate of £1.3 billion. We expect to use borrowings under the Cadbury Bridge Facility and proceeds from other financing sources to finance the Cadbury acquisition and to refinance certain indebtedness of Cadbury and its subsidiaries. With certain restrictions, borrowings under the Cadbury Bridge Facility are also available for our general corporate purposes.

The Cadbury Bridge Facility agreement includes the same minimum shareholders' equity requirement as in our \$4.5 billion revolving credit agreement. In addition, in the event that our long-term senior unsecured indebtedness is rated below investment grade by either Moody's or Standard & Poor's, the Cadbury Bridge Facility agreement requires us to maintain a net debt to adjusted EBITDA ratio of not more than 4.25 to 1.00. At December 31, 2009, we continued to maintain our investment grade debt rating, and our net debt to adjusted EBITDA ratio was 2.64. The Cadbury Bridge Facility agreement also contains customary representations, covenants and events of default and requires the prepayment of advances and / or the permanent reduction of commitments under the facility with the net cash proceeds received from certain disposals, debt issuances and equity capital markets transactions. No amounts were drawn on the facility at December 31, 2009.

Subject to market conditions, we expect to refinance or reduce advances under the *Cadbury Bridge Facility* from proceeds of alternative financing sources.

Long-Term Debt:

On February 8, 2010, we issued \$9.5 billion of senior unsecured notes at a weighted-average effective rate of 5.364% and are using the net proceeds (\$9,379 million) to finance the Cadbury acquisition and for general corporate purposes. The general terms of the \$9.5 billion notes are:

- \$3.75 billion total principal notes due February 10, 2020 at a fixed, annual interest rate of 5.375%. Interest is payable semiannually beginning August 10, 2010.
- \$3.00 billion total principal notes due February 9, 2040 at a fixed, annual interest rate of 6.500%. Interest is payable semiannually beginning August 9, 2010.

- \$1.75 billion total principal notes due February 9, 2016 at a fixed, annual interest rate of 4.125%. Interest is payable semiannually beginning August 9, 2010.
- \$1.00 billion total principal notes due May 8, 2013 at a fixed, annual interest rate of 2.625%. Interest is payable semiannually beginning November 8, 2010.

On December 19, 2008, we issued \$500 million of senior unsecured notes and used the net proceeds (\$498 million) for general corporate purposes, including the repayment of outstanding commercial paper. The general terms of the \$500 million notes are: \$500 million total principal notes due February 19, 2014 at a fixed, annual interest rate of 6.750%. Interest is payable semiannually, and began on February 19, 2009.

On May 22, 2008, we issued \$2.0 billion of senior unsecured notes and used the net proceeds (\$1,967 million) for general corporate purposes, including the repayment of borrowings under the 364-day bridge facility agreement we used to acquire *LU Biscuit* and other short-term borrowings. The general terms of the \$2.0 billion notes are:

- \$1,250 million total principal notes due August 23, 2018 at a fixed, annual interest rate of 6.125%. Interest is payable semiannually, and began February 23, 2009.
- \$750 million total principal notes due January 26, 2039 at a fixed, annual interest rate of 6.875%. Interest is payable semiannually, and began on January 26, 2009.

On March 20, 2008, we issued €2.85 billion (approximately \$4.5 billion) of senior unsecured notes and used the net proceeds (approximately \$4,470 million) to repay a portion of the 364-day bridge facility agreement we used to acquire *LU Biscuit*. The general terms of the €2.85 billion notes are:

- €2.0 billion (approximately \$3.2 billion) total principal notes due March 20, 2012 at a fixed, annual interest rate of 5.750%. Interest is payable annually, and began March 20, 2009.
- €850 million (approximately \$1.3 billion) total principal notes due March 20, 2015 at a fixed, annual interest rate of 6.250%. Interest is payable annually, and began March 20, 2009.

The notes from the above issuances include covenants that restrict our ability to incur debt secured by liens above a certain threshold. We are also required to offer to purchase these notes at a price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to the date of repurchase, if we experience both of the following:

- a "change of control" triggering event, and
- a downgrade of these notes below an investment grade rating by each of Moody's, Standard & Poor's and Fitch within a specified period.

We expect to continue to comply with our long-term debt covenants.

At December 31, 2009 and 2008, our long-term debt consisted of (interest rates were as of December 31, 2009):

	2009	2008
	(in millions)	
Notes, 0.77% to 7.55% (average effective rate 6.23%), due through 2039	\$ 14,395	\$ 15,130
Euro notes, 5.75% to 6.25% (average effective rate 5.98%), due through 2015	4,072	3,970
7% Debenture (effective rate 11.32%), \$200 million face amount, due 2011	-	182
Other foreign currency obligations	5	11
Capital leases and other	65	61
Total long-term debt	18,537	19,354
Less current portion of long term debt	(513)	(765)
Long-term debt	<u>\$ 18,024</u>	<u>\$ 18,589</u>

As of December 31, 2009, aggregate maturities of long-term debt were (in millions):

2010	\$ 513
2011	2,014
2012	4,373
2013	1,556
2014	506
Thereafter	9,640

On September 3, 2009, we redeemed our November 2011, 7% \$200 million debenture at par value. Upon redemption, we recorded a loss of \$14 million within interest and other expense, net which represented the write-off of the remaining discount. On November 12, 2009, we repaid \$750 million in notes, and on October 1, 2008, we repaid \$700 million in notes. These repayments were primarily financed from commercial paper issuances.

Fair Value:

The aggregate fair value of our long-term debt, based on quoted prices in active markets for identical liabilities, was \$19,769 million at December 31, 2009 and \$19,629 million at December 31, 2008.

The aggregate fair value of our third-party debt, based on market quotes, at December 31, 2009, was \$20,222 million as compared with the carrying value of \$18,990 million. The aggregate fair value of our third-party debt at December 31, 2008, was \$20,526 million as compared with the carrying value of \$20,251 million.

Interest and Other Expense:

Interest and other expense was:

	2009	For the Years Ended December 31, 2008		2007
		(in millions)		
Interest and other expense, net:				
Interest expense, external debt	\$ 1,260	\$ 1,272	\$ 739	
Interest income, Altria and affiliates	-	-	(74)	
Other income, net	(23)	(32)	(61)	
Total interest and other expense, net	\$ 1,237	\$ 1,240	\$ 604	

Capital Stock:

Capital Stock: (USD \$)	12 Months Ended 12/31/2009
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Capital Stock: **Note 8. Capital Stock:**

Our 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. Shares of Class A common stock issued, repurchased and outstanding were:

	Shares Issued	Shares Repurchased	Shares Outstanding
Balance at January 1, 2007	555,000,000	(99,027,355)	455,972,645
Repurchase of shares	-	(111,516,043)	(111,516,043)
Exercise of stock options and issuance of other stock awards	-	9,321,018	9,321,018
Conversion of Class B common shares to Class A common shares	1,180,000,000	-	1,180,000,000
Balance at December 31, 2007	1,735,000,000	(201,222,380)	1,533,777,620
Repurchase of shares	-	(25,272,255)	(25,272,255)
Shares tendered (Note 2)	-	(46,119,899)	(46,119,899)
Exercise of stock options and issuance of other stock awards	-	6,915,974	6,915,974
Balance at December 31, 2008	1,735,000,000	(265,698,560)	1,469,301,440
Exercise of stock options and issuance of other stock awards	-	8,583,463	8,583,463
Balance at December 31, 2009	1,735,000,000	(257,115,097)	1,477,884,903

Effective on the date of our spin-off, Altria converted all of its Class B shares of Kraft Foods common stock into Class A shares of Kraft Foods common stock. Following our spin-off, we only have Class A common stock outstanding. There were no Class B common shares or preferred shares issued and outstanding at December 31, 2009, 2008 and 2007.

On August 4, 2008, we completed the split-off of the *Post* cereals business. In this transaction, approximately 46.1 million shares of Kraft Foods Common Stock were tendered for \$1,644 million.

At December 31, 2009, 146,863,809 shares of Common Stock were reserved for stock options and other stock awards.

In 2010, we expect to issue approximately 260 million additional shares of our Common Stock as part of the Cadbury acquisition.

Our Board of Directors authorized the following Common Stock repurchase programs. Our \$5.0 billion share repurchase authority expired on March 30, 2009. We did not repurchase any shares in 2009.

Share Repurchase Program Authorized by the Board of Directors	\$5.0 billion	\$2.0 billion
Authorized / completed period for repurchase	April 2007 - March 2009	March 2006 - March 2007
Aggregate cost of shares repurchased in 2008 (millions of shares)	\$777 million (25.3 shares)	
Aggregate cost of shares repurchased in 2007 (millions of shares)	\$3.5 billion (105.6 shares)	\$140 million (4.5 shares)
Aggregate cost of shares repurchased life-to-date under program (millions of shares)	\$4.3 billion (130.9 shares)	\$1.1 billion (34.7 shares)

In total, we repurchased 25.3 million shares for \$777 million in 2008 and 110.1 million shares for \$3,640 million in 2007 under these programs. We made these repurchases of our Common Stock in open market transactions.

In March 2007, we repurchased 1.4 million additional shares of our Common Stock from Altria at a cost of \$46.5 million. We paid \$32.085 per share, which was the average of the high and the low price of Kraft Foods Common Stock as reported on the NYSE on March 1, 2007. This repurchase was in accordance with our Altria spin-off agreement.

Accumulated Other Comprehensive Earnings / (Losses):

Accumulated Other Comprehensive Earnings / (Losses): (USD \$)

12 Months Ended
12/31/2009

Accumulated Other Comprehensive Earnings / (Losses):

Note 9. Accumulated Other Comprehensive Earnings / (Losses):

The components of accumulated other comprehensive earnings / (losses) were:

	Currency Translation Adjustments	Pension and Other Benefits	Derivatives Accounted for as Hedges	Total
	(in millions)			
Balances at January 1, 2007	\$ (723)	\$ (2,342)	\$ (4)	\$ (3,069)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	672	(78)	-	594
Amortization of experience losses and prior service costs	-	154	-	154
Settlement losses	-	45	-	45
Net actuarial gain arising during period	-	410	-	410
Change in fair value of cash flow hedges	-	-	31	31
Total other comprehensive earnings	<u> </u>	<u> </u>	<u> </u>	<u>1,234</u>
Balances at December 31, 2007	\$ (51)	\$ (1,811)	\$ 27	\$ (1,835)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	(2,348)	114	-	(2,234)
Amortization of experience losses and prior service costs	-	98	-	98
Settlement losses	-	48	-	48
Net actuarial loss arising during period	-	(2,021)	-	(2,021)
Change in fair value of cash flow hedges	-	-	(50)	(50)
Total other comprehensive losses	<u> </u>	<u> </u>	<u> </u>	<u>(4,159)</u>
Balances at December 31, 2008	\$ (2,399)	\$ (3,572)	\$ (23)	\$ (5,994)

Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	1,893	(116)	-	1,777
Amortization of experience losses and prior service costs	-	126	-	126
Settlement losses	-	76	-	76
Net actuarial loss arising during period	-	(64)	-	(64)
Change in fair value of cash flow hedges	-	-	124	124
Total other comprehensive earnings				2,039
Balances at December 31, 2009	\$ (506)	\$ (3,550)	101 \$	(3,955)

Stock Plans:

Stock Plans: (USD \$)	12 Months Ended 12/31/2009
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Stock Plans:

Note 10. Stock Plans:

At our 2009 annual meeting, our shareholders approved the Kraft Foods Inc. Amended and Restated 2005 Performance Incentive Plan (the "2005 Plan"). The 2005 Plan includes, among other provisions, a limit on the number of shares that may be granted under the plan, vesting restrictions and a prohibition on stock option repricing. Under the 2005 Plan, we may grant to eligible employees awards of stock options, stock appreciation rights, restricted stock, restricted and deferred stock units, and other awards based on our Common Stock, as well as performance-based annual and long-term incentive awards. We are authorized to issue a maximum of 168.0 million shares of our Common Stock under the 2005 Plan. As of the effective date of the amendment, there were 92.1 million shares available to be granted under the 2005 Plan, of which no more than 27.5 million shares may be awarded as restricted or deferred stock. In addition, under the Kraft Foods 2006 Stock Compensation Plan for Non-Employee Directors (the "2006 Directors Plan"), we may grant up to 500,000 shares of Common Stock to members of the Board of Directors who are not our full-time employees. At December 31, 2009, there were 93,740,465 shares available to be granted under the 2005 Plan and 372,097 shares available to be granted under the 2006 Directors Plan. Restricted or deferred shares available for grant under the 2005 Plan at December 31, 2009, were 27,984,072.

In 2008, we changed our annual and long-term incentive compensation programs to further align them with shareholder returns. Under the annual equity program, we now grant equity in the form of both restricted or deferred stock and stock options. The restricted or deferred stock continues to vest 100% after three years, and the stock options vest in three annual installments beginning on the first anniversary of the grant date. Additionally, we changed our long-term incentive plan from a cash-based program to a share-based program. These shares vest based on varying performance, market and service conditions.

All stock awards are issued to employees from treasury stock. We have no specific policy to repurchase Common Stock to mitigate the dilutive impact of options; however, we have historically made adequate discretionary purchases, based on cash availability, market trends and other factors, to satisfy stock option exercise activity.

Stock Options:

Stock options are granted at an exercise price equal to the market value of the underlying stock on the grant date, generally become exercisable in three annual installments beginning on the first anniversary of the grant date and have a maximum term of ten years. Prior to 2008, we had not granted stock options through a broad-based program since 2002.

We account for our employee stock options under the fair value method of accounting using a modified Black-Scholes methodology to measure stock option expense at the date of grant. The fair value of the stock options at the date of grant is amortized to expense over the vesting period. We recorded compensation expense related to stock options of \$31 million in 2009 and \$18 million in 2008. The deferred tax benefit recorded related to this compensation expense was \$11 million in 2009 and \$6 million in 2008. The unamortized compensation expense related to our stock options was \$48 million at December 31, 2009 and is expected to be recognized over a weighted-average period of two years. Our weighted-average Black-Scholes fair value assumptions were as follows:

	Risk-Free Interest Rate	Expected Life	Expected Volatility	Expected Dividend Yield	Fair Value at Grant Date
2009	2.46%	6 years	21.36%	4.90%	\$ 2.68
2008	3.08%	6 years	21.04%	3.66%	\$ 4.49

The risk-free interest rate represents the rate on zero-coupon U.S. government issues with a remaining term equal to the expected life of the options. The expected life is the period over which our employees are expected to hold their options. It is based on the simplified method from the SEC's safe harbor guidelines. Volatility reflects historical movements in our stock price for a period commensurate with the expected life of the options. Dividend yield is estimated over the expected life of the options based on our stated dividend policy.

Stock option activity for the year ended December 31, 2009 was:

	Shares Subject to Option	Weighted- Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at January 1, 2009	38,485,559	\$ 24.74		
Options granted	16,310,380	23.64		
Options exercised	(5,891,471)	14.08		
Options cancelled	(2,176,771)	27.76		
Balance at December 31, 2009	46,727,697	25.56	6 years	\$ 149 million
Exercisable at December 31, 2009	22,848,549	25.41	2 years	\$ 91 million

In February 2009, as part of our annual equity program, we granted 16.3 million stock options to eligible employees at an exercise price of \$23.64.

In February 2008, as part of our annual equity program, we granted 13.5 million stock options to eligible employees at an exercise price of \$29.49. We also granted 0.1 million off-cycle stock options during 2008 at an exercise price of \$30.78.

On May 3, 2007, our Board of Directors approved a stock option grant to our CEO to recognize her election as our Chairman. She received 300,000 stock options, which vest under varying market and service conditions and expire ten years after the grant date. The grant had an insignificant impact on earnings in 2007.

The total intrinsic value of options exercised was \$72 million in 2009, \$76 million in 2008 and \$90 million in 2007. Cash received from options exercised was \$79 million in 2009, \$80 million in 2008 and \$124 million in 2007. The actual tax benefit realized for the tax deductions from the option exercises totaled \$52 million in 2009, \$44 million in 2008 and \$35 million in 2007.

Restricted and Deferred Stock:

We may grant shares of restricted or deferred stock to eligible employees, giving them in most instances all of the rights of shareholders, except that they may not sell, assign, pledge or otherwise encumber the shares. Shares of restricted and deferred stock are subject to forfeiture if certain employment conditions are not met. Restricted and deferred stock generally vest on the third anniversary of the grant date.

Shares granted in connection with our long-term incentive plan vest based on varying performance, market and service conditions. The unvested shares have no voting rights and do not pay dividends.

The fair value of the restricted and deferred shares at the date of grant is amortized to earnings over the restriction period. We recorded compensation expense related to restricted and deferred stock of \$133 million in 2009, \$160 million in 2008 and \$136 million in 2007. The deferred tax benefit recorded related to this compensation expense was \$44 million in 2009, \$53 million in 2008 and \$47 million in 2007. The unamortized compensation expense related to our restricted and deferred stock was \$149 million at December 31, 2009 and is expected to be recognized over a weighted-average period of two years.

Our restricted and deferred stock activity for the year ended December 31, 2009 was:

	Number of Shares	\$	Weighted-Average Grant Date Fair Value Per Share
Balance at January 1, 2009	15,250,805	\$	31.46
Granted	5,778,201		24.68
Vested	(6,071,661)		30.12
Forfeited	(1,102,392)		30.57
Balance at December 31, 2009	13,854,953		29.30

In January 2009, we granted 1.5 million shares of stock in connection with our long-term incentive plan, and the market value per share was \$27.00 on the date of grant. In February 2009, as part of our annual equity program, we issued 4.1 million shares of restricted and deferred stock to eligible employees, and the market value per restricted or deferred share was \$23.64 on the date of grant. We also issued 0.2 million off-cycle shares of restricted and deferred stock during 2009, and the weighted-average market value per restricted or deferred share was \$25.55 on the date of grant.

In January 2008, we granted 1.4 million shares of stock in connection with our long-term incentive plan, and the market value per share was \$32.26 on the date of grant. In February 2008, as part of our annual equity program, we issued 3.4 million shares of restricted and deferred stock to eligible employees, and the market value per restricted or deferred share was \$29.49 on the date of grant. We also issued 0.2 million off-cycle shares of restricted and deferred stock during 2008, and the weighted-average market value per restricted or deferred share was \$30.38 on the date of grant. The total number of restricted and deferred shares issued in 2008 was 5.0 million.

In January 2007, we issued 5.2 million shares of restricted and deferred stock to eligible employees as part of our annual equity program, and the market value per restricted or deferred share was \$34.655 on the date of grant. Additionally, we issued 1.0 million off-cycle shares of restricted and deferred stock during 2007, and the weighted-average market value per restricted or deferred share was \$34.085 on the date of grant. The total number of restricted and deferred shares issued in 2007 was 9.2 million, including those issued as a result of our spin-off from Altria (discussed below).

The weighted-average grant date fair value of restricted and deferred stock granted was \$143 million, or \$24.68 per restricted or deferred share, in 2009, \$151 million, or \$30.38 per restricted or deferred share, in 2008 and \$310 million, or \$33.63 per restricted or deferred share, in 2007. The vesting date fair value of restricted and deferred stock was \$153 million in 2009, \$196 million in 2008, and \$153 million in 2007.

Bifurcation of Stock Awards Upon Spin-Off from Altria:

Effective on the date of our spin-off, Altria stock awards were modified through the issuance of Kraft Foods stock awards, and accordingly, the Altria stock awards were split into two instruments. Holders of Altria stock options received: 1) a new Kraft Foods option to acquire shares of Kraft Foods Common Stock; and 2) an adjusted Altria stock option for the same number of shares of Altria common stock previously held, but with a proportionally reduced exercise price. For each employee stock option outstanding, the aggregate intrinsic value immediately after our spin-off from Altria was not greater than the aggregate intrinsic value immediately prior to it. Holders of Altria restricted stock or stock rights awarded before January 31, 2007 retained their existing awards and received restricted stock or stock rights in Kraft Foods Common Stock. Recipients of Altria restricted stock or stock rights awarded on or after January 31, 2007 did not receive Kraft Foods restricted stock or stock rights because Altria had announced the spin-off at that time. We reimbursed Altria \$179 million for net settlement of the employee stock awards. We determined the fair value of the stock options using the Black-Scholes option valuation model, and adjusted the fair value of the restricted stock and stock rights by the value of projected forfeitures.

Based upon the number of Altria stock awards outstanding upon our spin-off, we granted stock options for 24.2 million shares of Kraft Foods Common Stock at a weighted-average price of \$15.75. The options expire between 2007 and 2012. In addition, we issued 3.0 million shares of restricted stock and stock rights. The market value per restricted share or right was \$31.66 on the date of grant. Restrictions on the majority of these restricted shares and stock rights lapsed in the first quarter of either 2008 or 2009.

Benefit Plans:

Benefit Plans: (USD \$)	12 Months Ended 12/31/2009
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Benefit Plans: **Note 11. Benefit Plans:**

Pension Plans

Obligations and Funded Status:

The projected benefit obligations, plan assets and funded status of our pension plans at December 31, 2009 and 2008 were:

	U.S. Plans		Non-U.S. Plans	
	2009	2008	2009	2008
	(in millions)			
Benefit obligation at January 1	\$ 6,133	\$ 5,952	\$ 3,211	\$ 4,275
Service cost	152	149	67	107
Interest cost	369	371	215	257
Benefits paid	(310)	(314)	(225)	(269)
Settlements paid	(187)	(331)	(14)	(16)
Curtailment gain	(168)	-	-	-
Actuarial (gains) / losses	203	306	619	(542)
Currency	-	-	510	(710)
Other	3	-	18	109
Benefit obligation at December 31	<u>6,195</u>	<u>6,133</u>	<u>4,401</u>	<u>3,211</u>
Fair value of plan assets at January 1	4,386	7,006	2,618	4,041
Actual return on plan assets	1,180	(2,028)	400	(761)
Contributions	427	53	209	180
Benefits paid	(310)	(314)	(225)	(269)
Settlements paid	(187)	(331)	(14)	(16)
Currency	-	-	414	(615)
Other	-	-	(5)	58
Fair value of plan assets at December 31	<u>5,496</u>	<u>4,386</u>	<u>3,397</u>	<u>2,618</u>
Net pension liability recognized at December 31	<u>\$ (699)</u>	<u>\$ (1,747)</u>	<u>\$ (1,004)</u>	<u>\$ (593)</u>

Our projected benefit obligation decreased \$168 million in 2009 due to the freeze of certain of our U.S. pension plans.

The accumulated benefit obligation, which represents benefits earned to the measurement date, was \$5,673 million at December 31, 2009 and \$5,464 million at December 31, 2008 for the U.S. pension plans. The accumulated benefit obligation for the non-U.S. pension plans was \$4,115 million at December 31, 2009 and \$3,024 million at December 31, 2008.

The combined U.S. and non-U.S. pension plans resulted in a net pension liability of \$1,703 million at December 31, 2009 and \$2,340 million at December 31, 2008. We recognized these amounts in our consolidated balance sheets at December 31, 2009 and 2008 as follows:

	2009	2008
	(in millions)	
Prepaid pension assets	\$ 115	\$ 56
Other accrued liabilities	(53)	(29)
Accrued pension costs	(1,765)	(2,367)
	<u>\$ (1,703)</u>	<u>\$ (2,340)</u>

Certain of our U.S. and non-U.S. plans are under funded and have accumulated benefit obligations in excess of plan assets. For these plans, the projected benefit obligations, accumulated benefit obligations and the fair value of plan assets at December 31, 2009 and 2008 were:

	U.S. Plans		Non-U.S. Plans	
	2009	2008	2009	2008
	(in millions)			
Projected benefit obligation	\$ 4,666	\$ 6,133	\$ 3,703	\$ 1,740

Accumulated benefit obligation	4,166	5,464	3,478	1,664
Fair value of plan assets	3,932	4,386	2,629	1,144

We used the following weighted-average assumptions to determine our benefit obligations under the pension plans at December 31:

	U.S. Plans		Non-U.S. Plans	
	2009	2008	2009	2008
Discount rate	5.93%	6.10%	5.21%	6.41%
Expected rate of return on plan assets	8.00%	8.00%	7.26%	7.25%
Rate of compensation increase	4.00%	4.00%	3.08%	3.09%

Year-end discount rates for our U.S. and Canadian plans were developed from a model portfolio of high quality, fixed-income debt instruments with durations that match the expected future cash flows of the benefit obligations. Year-end discount rates for our non-U.S. plans (other than Canadian plans) were developed from local bond indices that match local benefit obligations as closely as possible. Changes in our discount rates were primarily the result of changes in bond yields year-over-year. We determine our expected rate of return on plan assets from the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

Components of Net Pension Cost:

Net pension cost consisted of the following for the years ended December 31, 2009, 2008 and 2007:

	U.S. Plans			Non-U.S. Plans		
	2009	2008	2007	2009	2008	2007
	(in millions)					
Service cost	\$ 152	\$ 149	\$ 159	\$ 67	\$ 91	\$ 101
Interest cost	369	371	365	215	222	194
Expected return on plan assets	(486)	(526)	(523)	(242)	(285)	(251)
Amortization:						
Net loss from experience differences	160	85	138	23	31	66
Prior service cost	6	7	5	6	7	9
Other expenses	112	74	68	8	16	4
Net pension cost	\$ 313	\$ 160	\$ 212	\$ 77	\$ 82	\$ 123

The following costs are included within other expenses above. Severance payments related to our Cost Savings Initiatives and Restructuring Program, and retired employees who elected lump-sum payments resulted in settlement losses for our U.S. plans of \$107 million in 2009, \$74 million in 2008 and \$68 million in 2007. In addition, we incurred a \$5 million curtailment charge in 2009 related to the freeze of certain of our U.S. pension plans. Non-U.S. plant closures and early retirement benefits resulted in curtailment and settlement losses of \$8 million in 2009, \$16 million in 2008 and \$4 million in 2007.

For the U.S. plans, we determine the expected return on plan assets component of net periodic benefit cost using a calculated market return value that recognizes the cost over a four year period. For our non-U.S. plans, we utilize a similar approach with varying cost recognition periods for some plans, and with others, we determine the expected return on plan assets based on asset fair values as of the measurement date.

As of December 31, 2009, for the combined U.S. and non-U.S. pension plans, we expected to amortize from accumulated other comprehensive earnings / (losses) into net periodic pension cost during 2010:

- an estimated \$244 million of net loss from experience differences; and
- an estimated \$12 million of prior service cost.

We used the following weighted-average assumptions to determine our net pension cost for the years ended December 31:

	U.S. Plans			Non-U.S. Plans		
	2009	2008	2007	2009	2008	2007
Discount rate	6.10%	6.30%	5.90%	6.41%	5.44%	4.67%
Expected rate of return on plan assets	8.00%	8.00%	8.00%	7.25%	7.43%	7.53%
Rate of compensation increase	4.00%	4.00%	4.00%	3.09%	3.13%	3.00%

Plan Assets:

The fair value of pension plan assets at December 31, 2009 was determined using:

Asset Category	Total Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		

U.S. equity securities	\$	289	\$	289	\$	-	\$	-
Non-U.S. equity securities		1,991		1,988		2		1
Pooled funds - equity securities		3,014		-		3,014		-
Total equity securities		5,294		2,277		3,016		1
Government bonds		1,037		931		106		-
Pooled funds - fixed income securities		945		-		945		-
Corporate bonds and other fixed income securities		988		54		932		2
Total fixed income securities		2,970		985		1,983		2
Real estate		131		22		109		-
Other		326		322		2		2
Total	\$	8,721	\$	3,606	\$	5,110	\$	5

Asset Category	U.S. Plans		Non-U.S. Plans	
	2009	2008	2009	2008
Equity securities	68%	65%	50%	45%
Debt securities	28%	35%	43%	45%
Real estate	-	-	4%	4%
Other	4%	-	3%	6%
Total	100%	100%	100%	100%

Our investment strategy is based on our expectation that equity securities will outperform debt securities over the long term. Accordingly, the composition of our U.S. plan assets is broadly characterized as a 70% / 30% allocation between equity and debt securities. The strategy uses indexed U.S. equity securities, actively managed international equity securities and actively managed U.S. and international investment grade debt securities (which constitute 90% or more of debt securities) with lesser allocations to high yield debt securities. The other asset balance of our U.S. plans at December 31, 2009 primarily related to a \$200 million voluntary cash contribution we made on December 31, 2009.

For the plans outside the U.S., the investment strategy is subject to local regulations and the asset / liability profiles of the plans in each individual country. These specific circumstances result in a level of equity exposure that is typically less than the U.S. plans. In aggregate, the asset allocation targets of our non-U.S. plans are broadly characterized as a mix of 50% equity securities, 40% debt securities and 10% real estate / other.

We attempt to maintain our target asset allocation by rebalancing between equity and debt asset classes as we make contributions and monthly benefit payments. We intend to rebalance our plan portfolios by mid-2010 by making contributions and monthly benefit payments.

We make contributions to our U.S. and non-U.S. pension plans, primarily, to the extent that they are tax deductible and do not generate an excise tax liability. Based on current tax law, we plan to make contributions of approximately \$40 million to our U.S. plans and approximately \$200 million to our non-U.S. plans in 2010. Our estimated pension contributions do not include anticipated contributions for our newly acquired Cadbury business. We will update this figure in future filings to reflect these anticipated contributions. However, our actual contributions may be different due to many factors, including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates.

Future Benefit Payments:

The estimated future benefit payments from our pension plans at December 31, 2009 were:

	U.S. Plans		Non-U.S. Plans	
	(in millions)			
2010	\$	473	\$	246
2011		453		246
2012		443		253
2013		450		256
2014		440		260
2015-2019		2,557		1,419

Other Costs:

We sponsor and contribute to employee savings plans. These plans cover eligible salaried, non-union and union employees. Our 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 \$94 million in 2009, \$93 million in 2008 and \$83 million in 2007.

We also made contributions to multiemployer pension plans totaling \$29 million in 2009, \$27 million in 2008 and \$26 million in 2007.

Postretirement Benefit Plans

Obligations:

Our postretirement health care plans are not funded. The changes in the accrued benefit obligation and net amount accrued at December 31, 2009 and 2008 were:

	2009		2008	
	(in millions)			
Accrued postretirement benefit obligation at January 1	\$	2,899	\$	3,063
Service cost		35		44
Interest cost		174		183
Benefits paid		(210)		(206)
Plan amendments		-		(84)
Currency		25		(30)
Assumption changes		157		(28)
Actuarial gains		(48)		(43)
Accrued postretirement health care costs at December 31	\$	3,032	\$	2,899

The current portion of our accrued postretirement health care costs of \$216 million at December 31, 2009 and \$221 million at December 31, 2008 was included in other accrued liabilities.

We used the following weighted-average assumptions to determine our postretirement benefit obligations at December 31:

	U.S. Plans		Canadian Plans	
	2009	2008	2009	2008
Discount rate	5.70%	6.10%	5.25%	7.60%
Health care cost trend rate assumed	7.00%	7.00%	9.00%	9.00%

for next year Ultimate trend rate	5.00%	5.00%	6.00%	6.00%
Year that the rate reaches the ultimate trend rate	2014	2014	2016	2015

Year-end discount rates for our U.S. and Canadian plans were developed from a model portfolio of high quality, fixed-income debt instruments with durations that match the expected future cash flows of the benefit obligations. Changes in our U.S. and Canadian discount rates were primarily the result of changes in bond yields year-over-year. Our expected health care cost trend rate is based on historical costs.

Assumed health care cost trend rates have a significant impact 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, 2009:

	One-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost	12.3%	(10.2%)
Effect on postretirement benefit obligation	9.8%	(8.3%)

Components of Net Postretirement Health Care Costs:

Net postretirement health care costs consisted of the following for the years ended December 31, 2009, 2008 and 2007:

	2009	2008 (in millions)	2007
Service cost	\$ 35	\$ 44	\$ 46
Interest cost	174	183	177
Amortization:			
Net loss from experience differences	44	55	58
Prior service credit	(32)	(28)	(26)
Other expense	-	-	5
Net postretirement health care costs	\$ 221	\$ 254	\$ 260

As of December 31, 2009, we expected to amortize from accumulated other comprehensive earnings / (losses) into net postretirement health care costs during 2010:

- an estimated \$50 million of net loss from experience differences; and
- an estimated \$31 million of prior service credit.

We used the following weighted-average assumptions to determine our net postretirement cost for the years ended December 31:

	U.S. Plans			Canadian Plans		
	2009	2008	2007	2009	2008	2007
Discount rate	6.10%	6.10%	5.90%	7.60%	5.80%	5.00%
Health care cost trend rate	7.00%	7.50%	8.00%	9.00%	9.00%	8.50%

Future Benefit Payments:

Our estimated future benefit payments for our postretirement health care plans at December 31, 2009 were:

	U.S. Plans	Canadian Plans
	(in millions)	
2010	\$ 206	\$ 10
2011	209	10
2012	208	10
2013	208	11
2014	207	11
2015-2019	1,026	62

Other Costs:

We made contributions to multiemployer medical plans totaling \$35 million in 2009, \$33 million in 2008 and \$33 million in 2007.

Postemployment Benefit Plans

Obligations:

Our postemployment plans are not funded. The changes in the benefit obligations of the plans and net amount accrued at December 31, 2009 and 2008 were:

	2009	2008
	(in millions)	
Accrued benefit obligation at January 1	\$ 560	\$ 254
Service cost	8	6
Interest cost	8	7

Severance	125	560
Benefits paid	(215)	(280)
Assumption changes	26	12
Actuarial gains	(7)	(2)
Currency	41	(15)
Other	-	18
Accrued postemployment costs at December 31	\$ 546	\$ 560

The accrued benefit obligation was determined using a weighted-average discount rate of 6.5% in 2009 and 7.1% in 2008, an assumed ultimate annual turnover rate of 0.5% in 2009 and 2008, assumed compensation cost increases of 4.0% in 2009 and 2008, 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.

Components of Net Postemployment Costs:

Net postemployment costs consisted of the following for the years ended December 31, 2009, 2008 and 2007:

	2009	2008 (in millions)	2007
Service cost	\$ 8	\$ 6	\$ 4
Interest cost	8	7	6
Amortization of net (gains) / losses	2	(2)	(2)
Other expense	125	560	132
Net postemployment costs	\$ 143	\$ 571	\$ 140

The following costs are included within other expense above:

- we incurred severance charges of \$32 million related to our Kraft Foods Europe Reorganization and \$170 million related to other Cost Savings Initiatives in 2009;
- we reversed \$77 million in severance charges in 2009 related to our Restructuring Program, as discussed in Note 6, *Restructuring Costs*; and
- we incurred severance charges of \$560 million in 2008 and \$132 million in 2007 related to workforce reduction initiatives announced under the Restructuring Program.

As of December 31, 2009, the estimated net loss for the postemployment benefit plans that we expected to amortize from accumulated other comprehensive earnings / (losses) into net postemployment costs during 2010 was insignificant.

Financial Instruments:

Financial Instruments: 12 Months Ended
(USD \$) 12/31/2009

Financial Instruments: **Note 12. Financial Instruments:**

Fair Value of Derivative Instruments:

The fair values of derivative instruments recorded in the consolidated balance sheet as of December 31, 2009 were:

	December 31, 2009	
	Asset Derivatives	Liability Derivatives
	(in millions)	
Derivatives designated as hedging instruments:		
Foreign exchange contracts	\$ 8	\$ 158
Commodity contracts	25	14
Interest rate contracts	153	-
	<u>\$ 186</u>	<u>\$ 172</u>
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	\$ 2	\$ -
Commodity contracts	71	62
	<u>\$ 73</u>	<u>\$ 62</u>
Total fair value	<u>\$ 259</u>	<u>\$ 234</u>

We include the fair value of our asset derivatives within other current assets and the fair value of our liability derivatives within other current liabilities.

The fair values (asset / (liability)) of our derivative instruments at December 31, 2009 were determined using:

Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in millions)			
Foreign exchange contracts	\$ (148)	\$ -	\$ (148)
Commodity contracts	20	11	8
Interest rate contracts	153	-	153
Total derivatives	<u>\$ 25</u>	<u>\$ 11</u>	<u>\$ 13</u>

Cash Flow Hedges:

Cash flow hedges affected accumulated other comprehensive earnings / (losses), net of income taxes, as follows:

	2009	2008	2007
	(in millions)		
Accumulated gain / (loss) at beginning of period	\$ (23)	\$ 27	\$ (4)
Transfer of realized (gains) / losses in fair value to earnings	111	26	(10)
Unrealized gain / (loss) in fair value	13	(76)	41
Accumulated gain / (loss) at December 31	<u>\$ 101</u>	<u>\$ (23)</u>	<u>\$ 27</u>

The effect of cash flow hedges for the year ended December 31, 2009 was:

Gain / (Loss) Recognized in OCI	(Gain) / Loss Reclassified from AOCI into Earnings
(in millions)	
Foreign exchange contracts - intercompany loans	\$ (12)
Foreign exchange contracts - forecasted transactions	(40)
Commodity contracts	(27)
Interest rate contracts	92
Total	<u>\$ 13</u>

Gain / (Loss) on Ineffectiveness Recognized in Earnings	Gain / (Loss) on Amount Excluded from Effectiveness Testing Recognized in Earnings
(in millions)	
Foreign exchange contracts - intercompany loans	\$ -
Foreign exchange contracts - forecasted transactions	-
Commodity contracts	12
Interest rate contracts	-
Total	<u>\$ 12</u>

We record (i) the gain or loss reclassified from accumulated other comprehensive earnings / (losses) into earnings, (ii) the gain or loss on ineffectiveness, and (iii) the gain or loss on the amount excluded from effectiveness testing in:

- cost of sales for commodity contracts;
- cost of sales or marketing, administration and research costs for foreign exchange contracts related to forecasted transactions, depending on the type of transaction; and
- interest and other expense, net for interest rate contracts and foreign exchange contracts related to intercompany loans.

As of December 31, 2009, we expected to transfer unrealized losses of \$2 million (net of taxes) for commodity cash flow hedges and unrealized gains of \$5 million (net of taxes) for foreign currency cash flow hedges to earnings during the next 12 months.

Hedge Coverage:

As of December 31, 2009, we had hedged forecasted transactions for the following durations:

- commodity transactions for periods not exceeding the next 19 months;
- interest rate transactions for periods not exceeding the next 33 years and 1 month; and
- foreign currency transactions for periods not exceeding the next 24 months, and excluding intercompany loans, we had hedged forecasted foreign currency transactions for periods not exceeding the next 12 months.

Fair Value Hedges:

The effect of fair value hedges for the year ended December 31, 2009 was:

	<u>Gain / (Loss) Recognized in Income on Derivatives</u>		<u>Gain / (Loss) Recognized in Income on Borrowings</u>
	(in millions)		
Interest rate contracts	\$	7	\$ (7)

We include the gain or loss on hedged long-term debt and the offsetting loss or gain on the related interest rate swap in interest and other expense, net.

Hedges of Net Investments in Foreign Operations:

The effect of hedges of net investments in foreign operations for the year ended December 31, 2009 was:

	<u>Gain / (Loss) Recognized in OCI</u>	<u>Location of Gain / (Loss) Recorded in AOCI</u>
	(in millions)	
		Currency Translation
Euro notes	\$ (65)	Adjustment

Our currency translation adjustment included gains of \$83 million for the year ended December 31, 2008 and \$28 million for the year ended December 31, 2007 related to the euro denominated borrowings.

Economic Hedges:

The effect of economic hedges, derivatives that are not designated as hedging instruments, for the year ended December 31, 2009 was:

	<u>Gain / (Loss) Recognized in Earnings</u>	<u>Location of Gain / (Loss) Recognized in Earnings</u>
	(in millions)	
Foreign exchange contracts - intercompany loans and forecasted interest payments	\$ (10)	Interest expense
Foreign exchange contracts - forecasted transactions	(10)	Cost of sales
Commodity contracts	37	Cost of sales
Total	<u>\$ 17</u>	

For commodity contracts not designated as hedging instruments, the impact to earnings was insignificant in 2008, and we recognized net gains of \$56 million in 2007. For foreign exchange contracts not designated as hedging instruments, we

recognized net losses of \$50 million in 2008 and \$231 million in 2007. The majority of these losses were attributable to hedges of intercompany loans and were economically offset with foreign currency gains from the intercompany receivable.

Volume:

As of December 31, 2009, we had the following outstanding hedges:

	Notional Amount (in millions)
Foreign exchange contracts - intercompany loans	\$ 1,376
Foreign exchange contracts - forecasted transactions	631
Commodity contracts	1,832
Interest rate contracts	2,350
Net investment hedge - euro notes	4,081

Commitments and Contingencies:

Commitments and Contingencies:
(USD \$)

12 Months Ended
12/31/2009

Commitments and Contingencies: **Note 13. Commitments and Contingencies:**

Legal Proceedings:

We are involved, from time to time, in legal proceedings, claims, and governmental inspections or investigations, arising in the ordinary course of our business. While we cannot predict with certainty the results of these matters, we do not expect that the ultimate costs to resolve these matters will have a material effect on our financial results.

In 2009, we recorded an additional \$50 million of charges for legal matters related to certain of our European operations. See Part I Item 3. Legal Proceedings for a description of these matters. In 2008, we recorded charges of \$72 million for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations.

Third-Party Guarantees:

We have third-party guarantees primarily covering the long-term obligations of our vendors. As part of those transactions, we guarantee that third parties will make contractual payments or achieve performance measures. At December 31, 2009, the carrying amount of our third-party guarantees on our consolidated balance sheet and the maximum potential payment under these guarantees was \$29 million. Substantially all of these guarantees expire at various times through 2018.

Leases:

Rental expenses were \$505 million in 2009, \$505 million in 2008 and \$433 million in 2007. As of December 31, 2009, minimum rental commitments under non-cancelable operating leases in effect at year-end were (in millions):

2010	\$	306
2011		243
2012		185
2013		103
2014		76
Thereafter		212

Income Taxes:

Income Taxes: (USD \$)	12 Months Ended 12/31/2009
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Income Taxes: **Note 14. Income Taxes:**

Earnings from continuing operations before income taxes and the provision for income taxes consisted of the following for the years ended December 31, 2009, 2008 and 2007:

	2009	2008 (in millions)	2007
Earnings from continuing operations before income taxes:			
United States	\$ 2,323	\$ 1,341	\$ 2,325
Outside United States	1,964	1,262	1,247
Total	\$ 4,287	\$ 2,603	\$ 3,572
Provision for income taxes:			
United States federal:			
Current	\$ 425	\$ 392	\$ 649
Deferred	108	(13)	(270)
	533	379	379
State and local:			
Current	95	62	175
Deferred	(39)	(21)	(69)
	56	41	106
Total United States	589	420	485
Outside United States:			
Current	701	507	649
Deferred	(31)	(172)	(54)
	670	335	595
Total provision for income taxes	\$ 1,259	\$ 755	\$ 1,080

Additionally, the 2008 earnings and gain from discontinued operations from the split-off of the *Post* cereals business included a net tax benefit of \$104 million.

As of January 1, 2009, our unrecognized tax benefits were \$807 million. If we had recognized all of these benefits, the net impact on our income tax provision would have been \$612 million. Our unrecognized tax benefits were \$829 million at December 31, 2009, and if we had recognized all of these benefits, the net impact on our income tax provision would have been \$661 million. We do not expect a significant change in our unrecognized tax benefits during the next 12 months. As this disclosure was made as of December 31, 2009, it does not reflect the impacts of our recent acquisition and divestiture activity. We include accrued interest and penalties related to uncertain tax positions in our tax provision. We had accrued interest and penalties of \$239 million as of January 1, 2009 and \$210 million as of December 31, 2009. Our 2009 provision for income taxes included a \$26 million net benefit for interest and penalties as reversals exceeded expense accruals during the year, due to agreements reached with the IRS on specific matters, settlements with various foreign and state tax authorities and the expiration of the statutes of limitations in various jurisdictions. We also paid interest and penalties of \$10 million during 2009.

The changes in our unrecognized tax benefits for the years ended December 31, 2009, 2008 and 2007 were (in millions):

	2009	2008	2007
January 1	\$ 807	\$ 850	\$ 667
Increases from positions taken during prior periods	90	17	131
Decreases from positions taken during prior periods	(205)	(90)	(23)
Increases from positions taken during the current period	146	98	34
(Decreases) / increases from acquisition adjustments	-	(22)	72
Decreases relating to settlements with taxing authorities	(26)	(8)	(38)
Reductions resulting from the lapse of the applicable statute of limitations	(14)	(13)	(6)
Currency / other	31	(25)	13
December 31	\$ 829	\$ 807	\$ 850

We are regularly examined by federal and various state and foreign tax authorities. The U.S. federal statute of limitations remains open for the year 2000 and onward. During 2009, we reached an agreement with the IRS on specific matters related to years 2000 through 2003. Our returns for those years are still under examination, and the IRS recently began its examination of years 2004 through 2006. In addition, we are currently under examination by taxing authorities in various U.S. state and foreign jurisdictions. U.S. state and foreign jurisdictions have statutes of limitations generally ranging from three to five years. Years still open to examination by foreign tax authorities in major jurisdictions include Germany (1999 onward), Brazil (2003 onward), Canada (2003 onward), Spain (2002 onward) and France (2006 onward).

At December 31, 2009, applicable U.S. federal income taxes and foreign withholding taxes had not been provided on approximately \$5.7 billion of accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested. It is impractical for us to determine the amount of unrecognized deferred tax liabilities on these permanently reinvested 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, 2009, 2008 and 2007:

	2009	2008	2007
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 excluding IRS audit impacts	1.9%	2.6%	2.8%
Benefit principally related to reversal of federal and state reserves on IRS audit settlements	(2.8%)	-	-
Reversal of other tax accruals no longer required	(0.3%)	(1.7%)	(1.4%)
Foreign rate differences, net of repatriation impacts	(2.1%)	(5.2%)	(5.2%)
Other	(2.3%)	(1.7%)	(1.0%)
Effective tax rate	29.4%	29.0%	30.2%

	2009		2008
	(in millions)		
Deferred income tax assets:			
Accrued postretirement and post employment benefits	\$ 1,472	\$	1,467
Accrued pension costs	456		703
Other	1,997		2,324
Total deferred income tax assets	3,925		4,494
Valuation allowance	(97)		(84)
Net deferred income tax assets	\$ 3,828	\$	4,410
Deferred income tax liabilities:			
Trade names	\$ (4,431)	\$	(4,431)
Property, plant and equipment	(2,029)		(1,862)
Other	(1,055)		(1,239)
Total deferred income tax liabilities	(7,515)		(7,532)
Net deferred income tax liabilities	\$ (3,687)	\$	(3,122)

Earnings Per Share:

Earnings Per Share: (USD \$)	12 Months Ended 12/31/2009
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Earnings Per Share: **Note 15. Earnings Per Share:**

Basic and diluted EPS from continuing and discontinued operations were calculated using the following:

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions, except per share data)		
Earnings from continuing operations	\$ 3,028	\$ 1,848	\$ 2,492
Earnings and gain from discontinued operations, net of income taxes	-	1,045	232
Net earnings	3,028	2,893	2,724
Noncontrolling interest	7	9	3
Net earnings attributable to Kraft Foods	<u>\$ 3,021</u>	<u>\$ 2,884</u>	<u>\$ 2,721</u>
Weighted-average shares for basic EPS	1,478	1,505	1,591
Plus incremental shares from assumed conversions of stock options and long-term incentive plan shares	<u>8</u>	<u>10</u>	<u>9</u>
Weighted-average shares for diluted EPS	<u>1,486</u>	<u>1,515</u>	<u>1,600</u>
Basic earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 2.04	\$ 1.22	\$ 1.56
Discontinued operations	-	0.70	0.15
Net earnings attributable to Kraft Foods	<u>\$ 2.04</u>	<u>\$ 1.92</u>	<u>\$ 1.71</u>
Diluted earnings per share attributable to Kraft Foods:			
Continuing operations	\$ 2.03	\$ 1.21	\$ 1.56
Discontinued operations	-	0.69	0.14
Net earnings attributable to Kraft Foods	<u>\$ 2.03</u>	<u>\$ 1.90</u>	<u>\$ 1.70</u>

We exclude antidilutive Kraft Foods stock options from our calculation of weighted-average shares for diluted EPS. We excluded 23.0 million antidilutive options for the year ended December 31, 2009 and 11.3 million antidilutive options for the year ended December 31, 2008. We excluded an insignificant number of antidilutive options for the year ended December 31, 2007.

Segment Reporting:

Segment Reporting: (USD \$)	12 Months Ended 12/31/2009
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Segment Reporting:

Note 16. Segment Reporting:

Kraft Foods manufactures and markets packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products. We manage and report operating results through three geographic units: Kraft Foods North America, Kraft Foods Europe and Kraft Foods Developing Markets. We manage the operations of Kraft Foods North America and Kraft Foods Europe by product category, and we manage the operations of Kraft Foods Developing Markets by location. Our reportable segments are U.S. Beverages, U.S. Cheese, U.S. Convenient Meals, U.S. Grocery, U.S. Snacks, Canada & N.A. Foodservice, Kraft Foods Europe (formerly known as European Union) and Kraft Foods Developing Markets.

Effective January 2009, we began implementing changes to our operating structure based on our Organizing For Growth initiative and the Kraft Foods Europe Reorganization. In line with our strategies, we are reorganizing our European operations to function on a pan-European centralized category management and value chain model, and we changed how we work in Europe in two key ways:

- We transitioned our European Biscuit, Chocolate, Coffee and Cheese categories to fully integrated business units, further strengthening our focus on these core categories. To ensure decisions are made faster and closer to our customers and consumers, each category is fully accountable for its financial results, including marketing, manufacturing and R&D. Category leadership, based in Zurich, Switzerland, reports to the Kraft Foods Europe President. These business units now comprise the Kraft Foods Europe segment.
- We aligned the reporting of our Central Europe operations into our Kraft Foods Developing Markets segment to help build critical scale in these countries. We operate a country-led model in these markets.

Management uses segment operating income to evaluate segment performance and allocate resources. We believe it is appropriate to disclose this measure to help investors analyze segment performance and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which are a component of cost of sales), certain components of our U.S. pension plan cost (which is a component of cost of sales and marketing, administration and research costs), general corporate expenses (which are a component of marketing, administration and research costs) and amortization of intangibles for all periods presented. In 2009, we began excluding certain components of our U.S. pension plan cost from segment operating income because we centrally manage pension plan funding decisions and the determination of discount rate, expected rate of return on plan assets and other actuarial assumptions. Therefore, we allocate only the service cost component of our U.S. pension plan expense to segment operating income. We exclude the unrealized gains and losses on hedging activities from segment operating income in order to provide better transparency of our segment operating results. Once realized, the gains and losses on hedging activities are recorded within segment operating results. Furthermore, we centrally manage interest and other expense, net. Accordingly, we do not present these items by segment because they are excluded from the segment profitability measure that management reviews. We use the same accounting policies for the segments as those described in Note 1, *Summary of Significant Accounting Policies*.

Segment data were:

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Net revenues:			
Kraft Foods North America:			
U.S. Beverages	\$ 3,057	\$ 3,001	\$ 2,990
U.S. Cheese	3,605	4,007	3,745
U.S. Convenient Meals	4,496	4,240	3,905
U.S. Grocery	3,453	3,389	3,277
U.S. Snacks	4,964	5,025	4,879
Canada & N.A. Foodservice	4,087	4,294	4,080
Kraft Foods Europe	8,768	9,728	7,007
Kraft Foods Developing Markets	7,956	8,248	5,975
Net revenues	\$ 40,386	\$ 41,932	\$ 35,858
	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Earnings from continuing operations			
before income taxes:			
Operating income:			
Kraft Foods North America:			
U.S. Beverages	\$ 511	\$ 381	\$ 346
U.S. Cheese	667	563	487
U.S. Convenient Meals	510	339	319
U.S. Grocery	1,146	1,009	1,022
U.S. Snacks	723	638	716

Canada & N.A. Foodservice	527	448	443
Kraft Foods Europe	785	182	455
Kraft Foods Developing Markets	936	815	588
Unrealized gains / (losses) on hedging activities		(205)	16
Certain U.S. pension plan costs	203	-	-
General corporate expenses	(165)	(304)	(203)
Amortization of intangibles	(26)	(23)	(13)
Operating income	5,524	3,843	4,176
Interest and other expense, net	(1,237)	(1,240)	(604)
Earnings from continuing operations before income taxes	<u>\$ 4,287</u>	<u>\$ 2,603</u>	<u>\$ 3,572</u>

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 16% of consolidated net revenues in 2009, 16% in 2008 and 15% in 2007. These net revenues occurred primarily in the Kraft Foods North America segments.

In 2009, unrealized gains on hedging activities of \$203 million primarily resulted from the 2008 unrealized losses on energy derivatives becoming realized in 2009. In 2008, unrealized losses on hedging activities of \$205 million were primarily related to energy derivatives, including heating oil (used primarily to hedge transportation costs) and natural gas contracts. In 2009, general corporate expenses included \$50 million of charges for legal matters related to certain of our European operations (see Part I Item 3. Legal Proceedings for a description of these matters). In 2008, we recorded \$72 million in charges for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations and represented the primary reason general corporate expenses increased \$101 million in 2008.

We incurred costs associated with our Cost Savings Initiatives of \$318 million in 2009. These charges were recorded in operations, primarily within the segment operating income of Kraft Foods Europe with the remainder spread across all other segments. In 2009, we also reversed \$85 million of Restructuring Program costs, with the majority relating to our Kraft Foods Europe segment while the remainder was spread across all other segments. We incurred Restructuring Program costs of \$989 million in 2008 and \$459 million in 2007. Refer to Note 6, *Restructuring Costs*, for a breakout of the 2008 and 2007 charges by segment. We also incurred asset impairment charges of \$21 million in 2009 related to our Kraft Foods Europe segment, \$140 million in 2008 related to our Kraft Foods Europe and Kraft Foods Developing Markets segments, and \$120 million in 2007 related to our U.S. Beverages segment. Refer to Note 5, *Goodwill and Intangible Assets*, for further details of these charges.

As described in Note 2, *Acquisitions and Divestitures*, we divested several operations, and recorded net gains / (losses) on these divestitures in segment operating income as follows:

	For the Years Ended December 31,		
	2009	2008 (in millions)	2007
Kraft Foods North America:			
U.S. Beverages	\$ -	\$ (1)	\$ (6)
U.S. Cheese	-	-	-
U.S. Convenient Meals	-	-	-
U.S. Grocery	-	-	-
U.S. Snacks	11	-	12
Canada & N.A. Foodservice	-	-	-
Kraft Foods Europe	(17)	(91)	-
Kraft Foods Developing Markets	-	-	8
Gains / (losses) on divestitures, net	<u>\$ (6)</u>	<u>\$ (92)</u>	<u>\$ 14</u>

Total assets, depreciation expense and capital expenditures by segment were:

	2009	2008
	(in millions)	
Total assets:		
Kraft Foods North America:		
U.S. Beverages	\$ 2,382	\$ 2,257
U.S. Cheese	4,589	4,599
U.S. Convenient Meals	3,063	2,857
U.S. Grocery	5,565	5,500
U.S. Snacks	16,418	16,384
Canada & N.A. Foodservice	5,051	4,888
Kraft Foods Europe	16,073	14,346
Kraft Foods Developing	11,087	9,487

Markets		
Unallocated assets		
(1)	2,486	2,855
Total assets	\$ 66,714	\$ 63,173

(1) Unallocated assets consist primarily of cash and cash equivalents, deferred income taxes, centrally held property, plant and equipment, prepaid pension assets and derivative financial instrument balances.

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Depreciation expense:			
Kraft Foods North America:			
U.S. Beverages	\$ 69	\$ 68	\$ 57
U.S. Cheese	66	66	62
U.S. Convenient Meals	84	78	81
U.S. Grocery	82	78	63
U.S. Snacks	127	129	140
Canada & N.A. Foodservice	83	93	96
Kraft Foods Europe	237	265	215
Kraft Foods Developing Markets	157	160	115
Total - continuing operations	905	937	829
Discontinued operations	-	26	44
Total depreciation expense	\$ 905	\$ 963	\$ 873

	For the Years Ended December 31,		
	2009	2008	2007
	(in millions)		
Capital expenditures:			
Kraft Foods North America:			
U.S. Beverages	\$ 82	\$ 110	\$ 90
U.S. Cheese	72	97	115
U.S. Convenient Meals	196	200	207
U.S. Grocery	85	87	99
U.S. Snacks	190	122	136
Canada & N.A. Foodservice	94	98	83
Kraft Foods Europe	292	285	207
Kraft Foods Developing Markets	319	368	274
Total - continuing operations	1,330	1,367	1,211
Discontinued operations	-	-	30
Total capital expenditures	\$ 1,330	\$ 1,367	\$ 1,241

Net revenues by consumer sector, which includes *Kraft* macaroni and cheese dinners in the Convenient Meals sector and the separation of Canada & N.A. Foodservice, Kraft Foods Europe and Kraft Foods Developing Markets into sector components, were:

	For the Year Ended December 31, 2009			
	Kraft Foods North America	Kraft Foods Europe	Kraft Foods Developing Markets	Total
	(in millions)			
Snacks	\$ 5,929	\$ 4,776	\$ 4,337	\$ 15,042
Beverages	3,545	2,390	2,094	8,029
Cheese	4,980	972	844	6,796
Grocery	3,136	369	566	4,071
Convenient Meals	6,072	261	115	6,448
Total net revenues	\$ 23,662	\$ 8,768	\$ 7,956	\$ 40,386

	For the Year Ended December 31, 2008		
	Kraft Foods	Kraft Foods	Kraft Foods

	North America	Europe	Developing Markets		
	(in millions)				
Snacks	\$ 5,951	\$ 5,291	\$ 4,668	\$	15,910
Beverages	3,509	2,625	2,081		8,215
Cheese	5,525	1,109	828		7,462
Grocery	3,211	394	567		4,172
Convenient Meals	5,760	309	104		6,173
Total net revenues	\$ 23,956	\$ 9,728	\$ 8,248	\$	41,932

For the Year Ended December 31, 2007					
	Kraft Foods North America	Kraft Foods Europe	Kraft Foods Developing Markets		Total
	(in millions)				
Snacks	\$ 5,704	\$ 2,833	\$ 2,824	\$	11,361
Beverages	3,499	2,456	1,830		7,785
Cheese	5,199	1,019	710		6,928
Grocery	3,138	363	519		4,020
Convenient Meals	5,336	336	92		5,764
Total net revenues	\$ 22,876	\$ 7,007	\$ 5,975	\$	35,858

Geographic data for net revenues, long-lived assets and total assets were:

For the Years Ended December 31,				
	2009	2008		2007
	(in millions)			
Net revenues:				
United States	\$ 21,165	\$ 21,436	\$	20,540
Europe	11,472	12,870		9,105
Other	7,749	7,626		6,213
Total net revenues	\$ 40,386	\$ 41,932	\$	35,858

For the Years Ended December 31,				
	2009	2008		
	(in millions)			
Long-lived assets:				
United States	\$ 31,773	\$ 31,571		
Europe	16,077	14,133		
Other	6,410	6,008		
Total long-lived assets	\$ 54,260	\$ 51,712		
Total assets:				
United States	\$ 35,816	\$ 36,279		
Europe	21,915	18,761		
Other	8,983	8,133		
Total assets	\$ 66,714	\$ 63,173		

Quarterly Financial Data (Unaudited):

Quarterly Financial Data
(Unaudited): (USD \$)

12 Months Ended
12/31/2009

Quarterly Financial Data (Unaudited):

Note 17. Quarterly Financial Data (Unaudited):

	2009 Quarters			
	First	Second	Third	Fourth
	(in millions, except per share data)			
Net revenues	\$ 9,396	\$ 10,162	\$ 9,803	\$ 11,025
Gross profit	\$ 3,265	\$ 3,665	\$ 3,541	\$ 4,129
Earnings from continuing operations	\$ 662	\$ 829	\$ 826	\$ 711
Earnings and gain from discontinued operations, net of income taxes	-	-	-	-
Net earnings	662	829	826	711
Noncontrolling interest	2	2	2	1
Net earnings attributable to Kraft Foods	\$ 660	\$ 827	\$ 824	\$ 710
Weighted-average shares for diluted EPS	1,483	1,484	1,487	1,487
Per share data:				
Basic EPS attributable to Kraft Foods:				
Continuing operations	\$ 0.45	\$ 0.56	\$ 0.56	\$ 0.48
Discontinued operations	-	-	-	-
Net earnings attributable to Kraft Foods	\$ 0.45	\$ 0.56	\$ 0.56	\$ 0.48
Diluted EPS attributable to Kraft Foods:				
Continuing operations	\$ 0.45	\$ 0.56	\$ 0.55	\$ 0.48
Discontinued operations	-	-	-	-
Net earnings attributable to Kraft Foods	\$ 0.45	\$ 0.56	\$ 0.55	\$ 0.48
Dividends declared	\$ 0.29	\$ 0.29	\$ 0.29	\$ 0.29
Market price - high	\$ 29.84	\$ 27.24	\$ 29.11	\$ 27.84
low	\$ 20.81	\$ 21.94	\$ 25.41	\$ 25.72

During 2009, we recorded the following pre-tax charges / (gains) in earnings from continuing operations:

	2009 Quarters			
	First	Second	Third	Fourth
	(in millions)			
Asset impairment and exit costs	\$ -	\$ (26)	\$ -	\$ (38)
(Gains) / losses on divestitures, net	-	17	-	(11)
	\$ -	\$ (9)	\$ -	\$ (49)

	2008 Quarters			
	First	Second	Third	Fourth
	(in millions, except per share data)			
Net revenues	\$ 10,046	\$ 10,804	\$ 10,401	\$ 10,681

Gross profit	\$	3,301	\$	3,868	\$	3,305	\$	3,370
Earnings from continuing operations	\$	547	\$	678	\$	520	\$	103
Earnings and gain from discontinued operations, net of income taxes		54		69		845		77
Net earnings		601		747		1,365		180
Noncontrolling interest		2		2		3		2
Net earnings attributable to Kraft Foods	\$	599	\$	745	\$	1,362	\$	178
Weighted-average shares for diluted EPS		1,542		1,532		1,503		1,481
Per share data:								
Basic EPS								
attributable to Kraft Foods:								
Continuing operations	\$	0.35	\$	0.44	\$	0.34	\$	0.07
Discontinued operations		0.04		0.05		0.57		0.05
Net earnings attributable to Kraft Foods	\$	0.39	\$	0.49	\$	0.91	\$	0.12
Diluted EPS								
attributable to Kraft Foods:								
Continuing operations	\$	0.35	\$	0.44	\$	0.34	\$	0.07
Discontinued operations		0.04		0.05		0.57		0.05
Net earnings attributable to Kraft Foods	\$	0.39	\$	0.49	\$	0.91	\$	0.12
Dividends declared	\$	0.27	\$	0.27	\$	0.29	\$	0.29
Market price - high	\$	32.85	\$	32.99	\$	34.97	\$	34.05
low	\$	28.63	\$	28.33	\$	28.04	\$	24.75

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

During the fourth quarter of 2008, we increased our gain on discontinued operations by \$77 million to correct for a deferred tax liability related to the split-off of the *Post* cereals business. As such, our gain from the split-off of the *Post* cereals business was \$926 million.

During 2008, we recorded the following pre-tax charges / (gains) in earnings from continuing operations:

	First	Second	2008 Quarters (in millions)	Third	Fourth
Asset impairment and exit costs	\$ 80	\$ 103	\$	\$ 123	\$ 718
(Gains) / losses on divestitures, net	18	74		1	(1)
	\$ 98	\$ 177	\$	\$ 124	\$ 717

Subsequent Events:

Subsequent Events: (USD \$)	12 Months Ended 12/31/2009
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Subsequent Events:

Note 18. Subsequent Events:

We evaluated subsequent events through February 16, 2010 and included all accounting and disclosure requirements related to subsequent events in our financial statements.

Valuation and Qualifying Accounts

Valuation and Qualifying Accounts
(USD \$)

12 Months Ended
12/31/2009

Valuation and Qualifying Accounts

Kraft Foods Inc. and Subsidiaries
Valuation and Qualifying Accounts
for the years ended December 31, 2009, 2008 and 2007
(in millions)

Col. A Description	Col. B Balance at Beginning of Period	Col. C Additions		Col. D Deductions (b)	Col. E Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts (a)		
2009:					
Allowance for discounts	\$ 28	\$ 35	\$ 4	\$ 59	8
Allowance for doubtful accounts	128	32	13	35	138
Allowance for deferred taxes	84	19	13	19	97
	<u>\$ 240</u>	<u>\$ 86</u>	<u>\$ 30</u>	<u>\$ 113</u>	<u>\$ 243</u>
2008:					
Allowance for discounts	\$ 5	\$ 73	\$ 17	\$ 67	28
Allowance for doubtful accounts	118	47	(22)	15	128
Allowance for deferred taxes	105	11	(16)	16	84
	<u>\$ 228</u>	<u>\$ 131</u>	<u>\$ (21)</u>	<u>\$ 98</u>	<u>\$ 240</u>
2007:					
Allowance for discounts	\$ 7	\$ 24	\$ -	\$ 26	5
Allowance for doubtful accounts	103	26	18	29	118
Allowance for deferred taxes	100	52	10	57	105
	<u>\$ 210</u>	<u>\$ 102</u>	<u>\$ 28</u>	<u>\$ 112</u>	<u>\$ 228</u>

Notes:

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

(b) Represents charges for which allowances were created.

Document Information

Document Information (USD \$)	12 Months Ended 12/31/2009
Document Type	10-K
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Document Period End Date	2009-12-31

Entity Information

Entity Information (USD \$)	12 Months Ended 12/31/2009	01/29/2010	06/30/2009
Trading Symbol	KFT		
Entity Registrant Name	KRAFT FOODS INC		
Entity Central Index Key	0001103982		
Current Fiscal Year End Date	--12-31		
Entity Well-known Seasoned Issuer	Yes		
Entity Current Reporting Status	Yes		
Entity Voluntary Filers	No		
Entity Filer Category	Large Accelerated Filer		
Entity Common Stock, Shares Outstanding		1,479,371,197	
Entity Public Float			\$ 37,000,000,000

