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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from to

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**
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

At June 30, 2007, there were 1,576,711,404 shares of the registrant's common stock outstanding.

KRAFT FOODS INC.

TABLE OF CONTENTS

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

Kraft Foods Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions of dollars)
(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 419	$ 239
Receivables (less allowances of $86 in 2007 and $84 in 2006)	3,957	3,869
Inventories:		
Raw materials	1,634	1,389
Finished product	2,399	2,117
Total inventories	4,033	3,506
Deferred income taxes	393	387
Other current assets	356	253
Total current assets	9,158	8,254
Property, plant and equipment, at cost	17,814	17,050
Less accumulated depreciation	8,012	7,357
Property, plant and equipment – net	9,802	9,693
Goodwill	25,516	25,553
Other intangible assets, net	10,060	10,177
Prepaid pension assets	1,239	1,168
Other assets	720	729
TOTAL ASSETS	$ 56,495	$ 55,574
LIABILITIES		
Short-term borrowings	$ 5,016	$ 1,715
Current portion of long-term debt	416	1,418
Due to Altria Group, Inc. and affiliates	5	607
Accounts payable	2,599	2,602
Accrued liabilities:		
Marketing	1,567	1,626
Employment costs	625	750
Dividends payable	394	45
Other	1,416	1,559
Income taxes	228	151
Total current liabilities	12,266	10,473
Long-term debt	7,085	7,081
Deferred income taxes	3,919	3,930
Accrued pension costs	1,009	1,022
Accrued postretirement health care costs	2,905	3,014
Other liabilities	1,835	1,499
TOTAL LIABILITIES	29,019	27,019
Contingencies (Note 8)		
SHAREHOLDERS’ EQUITY		
Class A common stock, no par value (1,735,000,000 shares issued in 2007 and 555,000,000 shares issued and outstanding in 2006)		
Class B common stock, no par value (1,180,000,000 shares issued and outstanding in 2006)		
Additional paid-in capital	23,295	23,626
Earnings reinvested in the business	11,945	11,128
Accumulated other comprehensive losses	(2,674)	(3,069)
	32,566	31,685
Less cost of repurchased stock	(5,090)	(3,130)
TOTAL SHAREHOLDERS’ EQUITY	27,476	28,555
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 56,495	$ 55,574

See notes to condensed consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
Net revenues	$ 9,205	$ 8,619	$ 17,791	$ 16,742
Cost of sales	5,945	5,435	11,480	10,626
Gross profit	3,260	3,184	6,311	6,116
Marketing, administration and research costs	1,969	1,771	3,841	3,479
Asset impairment and exit costs	107	226	174	428
(Gains) losses on sales of businesses	(8)	8	(20)	11
Amortization of intangibles	4	3	6	5
Operating income	1,188	1,176	2,310	2,193
Interest and other debt expense, net	149	147	213	243
Earnings before income taxes	1,039	1,029	2,097	1,950
Provision for income taxes	332	347	688	262
Net earnings	$ 707	$ 682	$ 1,409	$ 1,688
Per share data:				
Basic earnings per share	$ 0.45	$ 0.41	$ 0.88	$ 1.02
Diluted earnings per share	$ 0.44	$ 0.41	$ 0.87	$ 1.02
Dividends declared	$ 0.25	$ 0.23	$ 0.50	$ 0.46

See notes to condensed consolidated financial statements.

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

	Class A and B Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Earnings (Losses)	Cost of Repurchased Stock	Total Share-holders' Equity
Balances at January 1, 2006	$ –	$ 23,835	$ 9,453	$ (1,663)	$ (2,032)	$ 29,593
Comprehensive earnings:						
Net earnings	–	–	3,060	–	–	3,060
Other comprehensive earnings, net of income taxes	–	–	–	645	–	645
Total comprehensive earnings						3,705
Initial adoption of FASB Statement No. 158, net of income taxes	–	–	–	(2,051)	–	(2,051)
Exercise of stock options and issuance of other stock awards	–	(209)	202	–	152	145
Cash dividends declared ($0.96 per share)	–	–	(1,587)	–	–	(1,587)
Class A common stock repurchased	–	–	–	–	(1,250)	(1,250)
Balances at December 31, 2006	–	23,626	11,128	(3,069)	(3,130)	28,555
Comprehensive earnings:						
Net earnings	–	–	1,409	–	–	1,409
Other comprehensive earnings, net of income taxes	–	–	–	395	–	395
Total comprehensive earnings *						1,804
Initial adoption of FIN 48 (Note 14)	–	–	213	–	–	213
Exercise of stock options and issuance of other stock awards	–	(117)	–	–	227	110
Net settlement of employee stock awards with Altria Group, Inc. (Note 6)	–	(179)	–	–	–	(179)
Cash dividends declared ($0.50 per share)	–	–	(805)	–	–	(805)
Class A common stock repurchased	–	–	–	–	(2,187)	(2,187)
Other	–	(35)	–	–	–	(35)
Balances at June 30, 2007	$ –	$ 23,295	$ 11,945	$ (2,674)	$ (5,090)	$ 27,476

* Total comprehensive earnings were $1,046 million for the quarter ended June 30, 2007, $1,043 million for the quarter ended June 30, 2006 and $2,146 million for the six months ended June 30, 2006.

See notes to condensed consolidated financial statements.

Kraft Foods Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in millions of dollars)
(Unaudited)

	For the Six Months Ended June 30, 2007	For the Six Months Ended June 30, 2006
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings	$ 1,409	$ 1,688
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	442	433
Deferred income tax benefit	(100)	(56)
(Gains) losses on sales of businesses	(20)	11
Asset impairment and exit costs, net of cash paid	59	325
Cash effects of changes, net of the effects from acquired and divested companies:		
Receivables, net	10	(59)
Inventories	(429)	(216)
Accounts payable	(123)	(93)
Income taxes	128	103
Amounts due to Altria Group, Inc. and affiliates	(88)	(202)
Other working capital items	(450)	(442)
Change in pension assets and postretirement liabilities, net	91	14
Other	481	100
Net cash provided by operating activities	1,410	1,606
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(506)	(450)
Proceeds from sales of businesses	203	91
Other	10	63
Net cash used in investing activities	(293)	(296)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Net issuance of short-term borrowings	3,289	294
Long-term debt proceeds	28	32
Long-term debt repaid	(1,034)	(35)
(Decrease) increase in amounts due to Altria Group, Inc. and affiliates	(149)	35
Repurchase of Common Stock	(2,207)	(633)
Dividends paid	(820)	(769)
Other	(57)	(173)
Net cash used in financing activities	(950)	(1,249)
Effect of exchange rate changes on cash and cash equivalents	13	25
Cash and cash equivalents:		
Increase	180	86
Balance at beginning of period	239	316
Balance at end of period	$ 419	$ 402

See notes to condensed consolidated financial statements.

Note 1. Accounting Policies:

Basis of Presentation:

Our interim condensed consolidated financial statements are unaudited. We prepared the condensed consolidated financial statements following the requirements of the SEC for interim reporting. As permitted under those rules, a number of footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America have been condensed or omitted. It is management's opinion that these financial statements include all normal and recurring adjustments necessary for a fair presentation of our financial position and operating results. Net revenues and net earnings for any interim period are not necessarily indicative of annual results.

You should read these statements in conjunction with our consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2006.

In the first quarter of 2007, Altria Group, Inc. ("Altria") spun off its entire interest (89.0%) in Kraft 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 shares owned by Altria were distributed to Altria's stockholders, and our separation from Altria was completed (the "Distribution"). Before the Distribution, Altria converted all of its Class B shares of Kraft common stock into Class A shares of Kraft common stock. The Distribution ratio was calculated by dividing the number of shares of Kraft Common Stock held by Altria by the number of Altria shares outstanding on the date of record, March 16, 2007. Based on the calculation, the distribution ratio was 0.692024 shares of Kraft Common Stock for every share of Altria common stock outstanding. Following the Distribution, we only have Class A common stock outstanding.

New Accounting Pronouncements:

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. The provisions are effective for Kraft as of January 1, 2008. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. We are currently evaluating the impact of this statement on our financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*. The provisions are effective for Kraft as of January 1, 2008. This statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. We are currently evaluating the impact of this statement on our financial position, results of operations and cash flows.

Reclassification:

We reclassified certain prior year statement of earnings amounts, related to minority interest in earnings, from a separate line item into general corporate expenses within marketing, administration and research costs to conform with the current year's presentation. Additionally, we reclassified certain prior year balance sheet amounts, related to dividends payable, from other accrued liabilities to a separate line item to conform with the current year's presentation.

Note 2. Asset Impairment, Exit and Implementation Costs:

Restructuring Program

In January 2004, we announced a three-year restructuring program (the "Restructuring Program") and, in January 2006, extended it through 2008. The objectives of this program are to leverage our global scale, realign and lower our cost structure, and optimize capacity. As part of the Restructuring Program we anticipate:

- incurring approximately $3.0 billion in pre-tax charges reflecting asset disposals, severance and implementation costs, including approximately $575 million in 2007;
- closing up to 40 facilities and eliminating approximately 14,000 positions; and
- using cash to pay for approximately $1.9 billion of the $3.0 billion in charges.

We have incurred $1.9 billion in charges since the inception of the Restructuring Program, including $245 million during the six months ended June 30, 2007.

During the second quarter of 2006, we entered into a seven-year, $1.7 billion agreement to receive information technology services from Electronic Data Systems ("EDS"). On June 1, 2006, Kraft began using EDS's data centers, and EDS started providing Kraft with web hosting, telecommunications and IT workplace services. In the second quarter of 2007, we reversed $1 million in restructuring costs because our severance costs were lower than originally anticipated, and we incurred implementation costs of $19 million related to the EDS transition. During the six months ended June 30, 2007, we reversed $8 million in restructuring costs because our severance costs were lower than originally anticipated, and we incurred implementation costs of $34 million. These amounts are included in the total Restructuring Program charges discussed above.

Restructuring Costs:

Under the Restructuring Program, we recorded asset impairment and exit costs of $107 million during the three months and $174 million during the six months ended June 30, 2007. We announced the closure of two plants during the first six months of 2007, bringing the facility closures we have announced since the program began to 29. We expect to pay cash for approximately $122 million of the charges that we incurred during the first six months of 2007.

Restructuring liability activity for the six months ended June 30, 2007 was as follows:

	Severance	Asset Write-downs	Other	Total
		(in millions)		
Liability balance, January 1, 2007	$ 165	$ –	$ 32	$ 197
Charges	74	56	44	174
Cash spent	(69)	4	(50)	(115)
Charges against assets	(14)	(60)	–	(74)
Currency	3	–	1	4
Liability balance, June 30, 2007	$ 159	$ –	$ 27	$ 186

Severance costs include the cost of benefits received by terminated employees. We expect to eliminate approximately 10,500 positions in connection with programs announced since 2004. As of June 30, 2007, we had eliminated approximately 9,800 of these positions. Severance charges against assets primarily relate to incremental pension costs, which reduce prepaid pension assets. Asset write-downs relate to the impairment of assets caused by plant closings and related activity. We incurred other costs related primarily to the renegotiation of supplier contract costs, workforce reductions associated with the plant closings and the termination of leasing agreements.

Implementation Costs:

We recorded implementation costs associated with the Restructuring Program of $50 million during the three months and $71 million during the six months ended June 30, 2007. These costs include incremental expenses related to the closure of facilities and the EDS transition discussed above. Substantially all implementation costs incurred in 2007 will require cash payments. We recorded these costs on the condensed consolidated statements of earnings as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Cost of sales	$ 25	$ 5	$ 30	$ 11
Marketing, administration and research costs	25	12	41	19
Total implementation costs	$ 50	$ 17	$ 71	$ 30

Asset Impairment Charges

During the first quarter of 2007, we sold our hot cereal assets and trademarks for a pre-tax gain of $12 million. We previously incurred an asset impairment charge of $69 million in the fourth quarter of 2006 in connection with this sale. The charge included the write-off of a portion of the associated goodwill, intangible assets and property, plant and equipment. We recorded the charge as asset impairment and exit costs on the 2006 consolidated statement of earnings, and no further charges were incurred in 2007.

During the first quarter of 2007, we completed our annual review of goodwill and intangible assets. No impairments resulted from this review.

Total – Asset Impairment, Exit and Implementation Costs

We included the asset impairment, exit and implementation costs discussed above, for the three and six months ended June 30, 2007 and 2006 in segment operating income as follows:

	For the Three Months Ended June 30, 2007				
	Restructuring Costs	Asset Impairment	Total Asset Impairment and Exit Costs	Implementation Costs	Total
			(in millions)		
North America Beverages	$ 6	$ –	$ 6	$ 2	$ 8
North America Cheese & Foodservice	31	–	31	14	45
North America Convenient Meals	1	–	1	3	4
North America Grocery	14	–	14	1	15
North America Snacks & Cereals	2	–	2	6	8
European Union	43	–	43	19	62
Developing Markets(1)	10	–	10	5	15
Total	$ 107	$ –	$ 107	$ 50	$ 157

	For the Three Months Ended June 30, 2006				
	Restructuring Costs	Asset Impairment	Total Asset Impairment and Exit Costs	Implementation Costs	Total
			(in millions)		
North America Beverages	$ 7	$ –	$ 7	$ 3	$ 10
North America Cheese & Foodservice	60	–	60	(3)	57
North America Convenient Meals	35	–	35	4	39
North America Grocery	8	–	8	3	11
North America Snacks & Cereals	10	–	10	3	13
European Union	81	–	81	6	87
Developing Markets(1)	25	–	25	1	26
Total	$ 226	$ –	$ 226	$ 17	$ 243

	For the Six Months Ended June 30, 2007				
	Restructuring Costs	Asset Impairment	Total Asset Impairment and Exit Costs	Implementation Costs	Total
			(in millions)		
North America Beverages	$ 7	$ –	$ 7	$ 4	$ 11
North America Cheese & Foodservice	41	–	41	18	59
North America Convenient Meals	11	–	11	7	18
North America Grocery	17	–	17	3	20
North America Snacks & Cereals	6	–	6	10	16
European Union	77	–	77	22	99
Developing Markets(1)	15	–	15	7	22
Total	$ 174	$ –	$ 174	$ 71	$ 245

	For the Six Months Ended June 30, 2006				
	Restructuring Costs	Asset Impairment	Total Asset Impairment and Exit Costs	Implementation Costs	Total
			(in millions)		
North America Beverages	$ 9	$ –	$ 9	$ 4	$ 13
North America Cheese & Foodservice	66	–	66	1	67
North America Convenient Meals	52	–	52	4	56
North America Grocery	13	–	13	4	17
North America Snacks & Cereals	15	99	114	4	118
European Union	99	–	99	9	108
Developing Markets(1)	64	11	75	4	79
Total	$ 318	$ 110	$ 428	$ 30	$ 458

(1) This segment was formerly known as Developing Markets, Oceania & North Asia

Note 3. Transactions with Altria Group, Inc.:

On March 30, 2007, we entered into a post-spin Transition Services Agreement with Altria's subsidiary, Altria Corporate Services, Inc. ("ALCS"). Under the agreement, ALCS is providing information technology services to Kraft during the EDS transition. In the first quarter of 2007, ALCS provided pre-spin administrative services to us under a separate Corporate Services agreement that expired on March 30, 2007. Billings for all services were $4 million for the three months and $23 million for the six months ended June 30, 2007.

On March 30, 2007, we entered into an Employee Matters Agreement and a Tax Sharing Agreement with Altria. The Employee Matters Agreement sets out each company's obligations for employee transfers, equity compensation and other employee benefits matters for individuals moving, or who previously moved between companies. The Tax Sharing Agreement identifies Altria's and Kraft's rights, responsibilities and obligations with respect to our income taxes following the Distribution. It also places certain restrictions on us, including a 2-year limit on share repurchases of no more than 20% of our Common Stock outstanding at the time of the Distribution.

At March 31, 2007, we had short-term amounts payable to Altria of $449 million, including $364 million of accrued dividends, which we paid in April 2007.

In the first quarter 2007, we repurchased 1.4 million 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 Common Stock as reported on the NYSE on March 1, 2007. This repurchase was in accordance with the Distribution agreement.

Note 4. Acquisitions:

On July 3, 2007, we announced a binding offer to acquire the global biscuit business of Groupe Danone S.A. ("Groupe Danone") for €5.3 billion (approximately $7.2 billion) in cash. Groupe Danone's global biscuit business generated revenues of approximately $2.7 billion during 2006. The transaction is subject to customary closing conditions, including regulatory approval. We expect the transaction to close by the end of 2007.

In September 2006, we acquired the Spanish and Portuguese operations of United Biscuits ("UB") for approximately $1.1 billion. The non-cash acquisition was financed by our assumption of $541 million of debt issued by the acquired business immediately prior to the acquisition, as well as $530 million of value for the redemption of our outstanding investment in UB, primarily deep-discount securities. As part of the transaction, we also recovered the rights to all Nabisco trademarks in the European Union, Eastern Europe, the Middle East and Africa, which UB had held since 2000. These businesses contributed net revenues of approximately $118 million during the three months and $215 million during the six months ended June 30, 2007.

Note 5. Divestitures:

During the second quarter of 2007, we sold sugar confectionery assets in Romania and related trademarks. During the first quarter of 2007, we sold our hot cereal assets and trademarks. In aggregate, we received $203 million in proceeds, and recorded gains of $20 million on these sales.

The aggregate operating results of these divestitures were not material to our financial statements in any of the periods presented.

Note 6. Stock Plans:

On May 3, 2007, our Board of Directors approved a stock option grant to Irene B. Rosenfeld to recognize her election as our Chairman. Ms. Rosenfeld received 300,000 stock options under the 2005 Performance Incentive Plan, which vest under varying market and service conditions and expire ten years after the grant date.

At Distribution, as described in Note 1, *Accounting Policies*, Altria stock awards were modified through the issuance of Kraft stock awards, and accordingly the Altria stock awards were split into two instruments. Holders of Altria stock options received: 1) a new Kraft option to acquire shares of Kraft 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 before the Distribution was not greater than the aggregate intrinsic value immediately after the Distribution. 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 Common Stock. Recipients of Altria restricted stock or stock rights awarded on or after January 31, 2007, did not receive Kraft restricted stock or stock rights because Altria announced the Distribution at that time. We reimbursed Altria $179 million for net settlement of the employee stock awards as detailed below. We determined the fair value of the stock options using the Black-Scholes option valuation model. We adjusted the fair value of the restricted stock and stock rights by the value of projected forfeitures.

Kraft (paid to) received from Altria (in millions):

Kraft stock options received by Altria employees	$	240
Altria stock options received by Kraft employees		(440)
Kraft stock awards received by holders of Altria stock awards		33
Altria stock awards received by holders of Kraft stock awards		(12)
Net payment to Altria	$	(179)

Based upon the number of Altria stock awards outstanding at Distribution, we granted stock options for approximately 24.1 million shares of Common Stock at a weighted-average price of $15.75. The options expire between 2007 and 2012. In addition, we issued approximately 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 stock and stock rights lapse in the first quarter of either 2008 or 2009.

In January 2007, we issued approximately 5.2 million shares of restricted stock and stock rights to eligible U.S. and non-U.S. employees. Restrictions on these shares and rights lapse in the first quarter of 2010. The market value per restricted share or right was $34.655 on the date of grant. The total number of restricted shares and rights issued in the first quarter of 2007 was 8.2 million, including those issued as a result of the Distribution.

During the six months ended June 30, 2007, approximately 4.4 million shares of restricted stock and stock rights vested at a market value of $148 million.

The total intrinsic value of the 3.2 million Kraft stock options exercised during the second quarter of 2007 was $52.5 million. The total intrinsic value of the 4.0 million Kraft stock options exercised during the first six months of 2007 was $55.8 million.

Note 7. Earnings Per Share:

Basic and diluted EPS were calculated as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions, except per share data)		(in millions, except per share data)	
Net earnings	$ 707	$ 682	$ 1,409	$ 1,688
Weighted average shares for basic EPS	1,587	1,647	1,607	1,652
Plus incremental shares from assumed conversions of stock options, restricted stock and stock rights	19	9	16	9
Weighted average shares for diluted EPS	1,606	1,656	1,623	1,661
Basic earnings per share	$ 0.45	$ 0.41	$ 0.88	$ 1.02
Diluted earnings per share	$ 0.44	$ 0.41	$ 0.87	$ 1.02

For the three and six months ended June 30, 2007, and the three and six months ended June 30, 2006, we excluded an insignificant number of Kraft stock options from the calculation of weighted average shares for diluted EPS, because they were antidilutive.

Note 8. Contingencies:

Legal Proceedings: We are defendants in a variety of legal proceedings. Plaintiffs in a few of those cases seek substantial damages. We cannot predict with certainty the results of these proceedings. However, we believe that the final outcome of these proceedings will not materially affect our financial results.

Third-Party Guarantees: We have third-party guarantees because of our acquisition, divestiture and construction activities. As part of those transactions, we guarantee that third parties will make contractual payments or achieve performance measures. At June 30, 2007, our third-party guarantees were approximately $27 million, of which approximately $7 million have no specified expiration dates. Substantially all of the remainder expire at various times through 2016. We have a liability of $21 million on our condensed consolidated balance sheet at June 30, 2007, relating to these guarantees.

Note 9. Goodwill and Other Intangible Assets, Net:

Goodwill by reportable segment was as follows:

	June 30, 2007	December 31, 2006
	(in millions)	
North America Beverages	$ 1,372	$ 1,372
North America Cheese & Foodservice	4,209	4,218
North America Convenient Meals	2,170	2,167
North America Grocery	3,051	3,058
North America Snacks & Cereals	8,594	8,696
European Union	5,051	5,004
Developing Markets	1,069	1,038
Total goodwill	$ 25,516	$ 25,553

Intangible assets were as follows:

	June 30, 2007		December 31, 2006	
	Intangible Assets, at cost	Accumulated Amortization	Intangible Assets, at cost	Accumulated Amortization
	(in millions)		(in millions)	
Non-amortizable intangible assets	$ 9,955	$ –	$ 10,150	$ –
Amortizable intangible assets	160	55	94	67
Total intangible assets	$ 10,115	$ 55	$ 10,244	$ 67

Non-amortizable intangible assets consist substantially of brand names purchased through the Nabisco and UB acquisitions. Amortizable intangible assets consist primarily of trademark licenses and non-compete agreements. We made the following significant adjustments to goodwill and intangible assets during the six months ended June 30, 2007:

- completed the purchase price allocation and reclassified $80 million from non-amortizable to amortizable intangible assets as part of the UB acquisition;
- removed a fully amortized intangible asset for $18 million; and
- reduced goodwill by $85 million upon the adoption of FIN 48 (see Note 14, *Income Taxes*, for further details).

Amortization expense for intangible assets was $4 million in the second quarter of 2007 and $6 million in the first six months of 2007. We currently estimate amortization expense for each of the next five years to be approximately $11 million or less.

The movement in goodwill and intangible assets from December 31, 2006 is as follows:

	Goodwill	Intangible Assets, at cost
	(in millions)	
Balance at December 31, 2006	$ 25,553	$ 10,244
Changes due to:		
Currency	92	21
Sale of business	(45)	(132)
Other	(84)	(18)
Balance at June 30, 2007	$ 25,516	$ 10,115

Note 10. Accumulated Other Comprehensive Losses:

The components of accumulated other comprehensive losses are as follows:

	Accumulated Other Comprehensive Earnings (Losses)			
	Currency Translation Adjustments	Pension and Other Benefits	Derivatives Accounted for as Hedges	Total
	(in millions)			
Balances at January 1, 2006	$ (1,290)	$ (369)	$ (4)	$ (1,663)
Other comprehensive earnings, net of income taxes:				
Currency translation adjustments	567	–	–	567
Additional minimum pension liability	–	78	–	78
Total other comprehensive earnings				645
Initial adoption of FASB Statement No. 158, net of income taxes	–	(2,051)	–	(2,051)
Balances at December 31, 2006	(723)	(2,342)	(4)	(3,069)
Other comprehensive earnings, net of income taxes:				
Currency translation adjustments	220	(29)	–	191
Amortization of experience losses and prior service costs	–	97	–	97
Valuation update	–	75	–	75
Change in fair value of derivatives accounted for as hedges	–	–	32	32
Total other comprehensive earnings				395
Balances at June 30, 2007	$ (503)	$ (2,199)	$ 28	$ (2,674)

Note 11. Segment Reporting:

Kraft manufactures and markets packaged food products, including beverages, cheese, snacks, convenient meals and various packaged grocery products. We manage and report operating results through two commercial units, Kraft North America and Kraft International. We manage Kraft North America's operations by product category, and its reportable segments are North America Beverages; North America Cheese & Foodservice; North America Convenient Meals; North America Grocery; and North America Snacks & Cereals. We manage Kraft International's operations by geographic location, and its reportable segments are European Union and Developing Markets (formerly known as Developing Markets, Oceania & North Asia).

Management uses segment operating income to evaluate segment performance and allocate resources. Segment operating income excludes unallocated general corporate expenses and amortization of intangibles. Management believes it is appropriate to disclose this measure to help investors analyze segment performance and trends. We centrally manage interest and other debt expense and the provision for income taxes. Accordingly, we do not present these items by segment because they are excluded from the segment profitability measure that management reviews. Our assets are principally located in the U.S. and Europe and are managed geographically.

Segment data were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Net revenues:				
North America Beverages	$ 854	$ 819	$ 1,680	$ 1,614
North America Cheese & Foodservice	1,540	1,495	3,008	2,964
North America Convenient Meals	1,274	1,230	2,520	2,444
North America Grocery	776	790	1,399	1,422
North America Snacks & Cereals	1,618	1,611	3,157	3,144
European Union	1,841	1,539	3,591	3,006
Developing Markets	1,302	1,135	2,436	2,148
Net revenues	$ 9,205	$ 8,619	$ 17,791	$ 16,742

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Earnings before income taxes:				
Operating income:				
Segment operating income:				
North America Beverages	$ 134	$ 115	$ 273	$ 262
North America Cheese & Foodservice	149	179	342	382
North America Convenient Meals	158	185	341	385
North America Grocery	267	294	467	498
North America Snacks & Cereals	266	269	514	411
European Union	125	86	243	215
Developing Markets	136	98	229	133
General corporate expenses	(43)	(47)	(93)	(88)
Amortization of intangibles	(4)	(3)	(6)	(5)
Operating income	1,188	1,176	2,310	2,193
Interest and other debt expense, net	(149)	(147)	(213)	(243)
Earnings before income taxes	$ 1,039	$ 1,029	$ 2,097	$ 1,950

We recorded asset impairment, exit and implementation costs of $157 million during the three months and $245 million during the six months ended June 30, 2007. Refer to Note 2, *Asset Impairment, Exit and Implementation Costs*, for a breakout of charges by segment.

During the second quarter of 2007, we sold sugar confectionery assets in Romania and related trademarks and recorded a pre-tax gain of $8 million. We included this gain in the segment operating income of the Developing Markets segment. During the first quarter of 2007, we sold our hot cereal assets and trademarks and recorded a pre-tax gain of $12 million. We included this gain in the segment operating income of the North America Snacks & Cereals segment.

Net revenues by consumer sector, which includes the separation of Foodservice and Kraft International into sector components and Cereals into the Grocery sector, were as follows:

	For the Three Months Ended June 30, 2007			For the Three Months Ended June 30, 2006		
	Kraft North America	Kraft International	Total	Kraft North America	Kraft International	Total
		(in millions)			(in millions)	
Snacks	$ 1,393	$ 1,206	$ 2,599	$ 1,358	$ 986	$ 2,344
Beverages	922	1,147	2,069	890	994	1,884
Cheese & Dairy	1,227	418	1,645	1,171	386	1,557
Grocery	1,181	245	1,426	1,222	204	1,426
Convenient Meals	1,339	127	1,466	1,304	104	1,408
Total net revenues	$ 6,062	$ 3,143	$ 9,205	$ 5,945	$ 2,674	$ 8,619

	For the Six Months Ended June 30, 2007			For the Six Months Ended June 30, 2006		
	Kraft North America	Kraft International	Total	Kraft North America	Kraft International	Total
		(in millions)			(in millions)	
Snacks	$ 2,707	$ 2,471	$ 5,178	$ 2,622	$ 1,994	$ 4,616
Beverages	1,808	2,117	3,925	1,744	1,868	3,612
Cheese & Dairy	2,417	792	3,209	2,343	744	3,087
Grocery	2,189	431	2,620	2,295	369	2,664
Convenient Meals	2,643	216	2,859	2,584	179	2,763
Total net revenues	$ 11,764	$ 6,027	$ 17,791	$ 11,588	$ 5,154	$ 16,742

Note 12. Financial Instruments:

Kraft is 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 coffee, milk, sugar and cocoa. Commodity forward contracts generally qualify for the normal purchase exception under SFAS No. 133 and are, therefore, not subject to its provisions. We also use commodity futures and options to hedge the price of certain commodities, including milk, coffee, cocoa, wheat, corn, sugar and soybean oil. The majority of these derivative instruments are accounted for as effective hedges. We had net long commodity positions of $461 million at June 30, 2007, and $533 million at December 31, 2006. Net unrealized gains on commodity positions were approximately $70 million at June 30, 2007, and were insignificant at December 31, 2006. 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 in our consolidated statement of earnings when the related inventory is sold. Ineffectiveness related to the derivatives that qualify for hedge accounting under SFAS No. 133 was immaterial during the three and six months ended June 30, 2007. For the derivative instruments that did not qualify for hedge accounting under SFAS No. 133, we recognized gains of $10 million during the three months and $16 million during the six months ended June 30, 2007. As of June 30, 2007, we had hedged forecasted commodity transactions for periods not exceeding the next 18 months.

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. Substantially all of these derivative instruments are accounted for as effective hedges. Based on the size and location of our businesses, the primary currencies we are exposed to include the euro, Swiss franc, British pound and Canadian dollar. We had forward foreign exchange contracts, foreign currency swaps and foreign exchange options with aggregate notional amounts of $5.7 billion at June 30, 2007, and $2.6 billion at December 31, 2006. Unrealized gains or losses on net foreign currency positions were immaterial at June 30, 2007 and December 31, 2006. 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 on our consolidated statement of earnings. During the first quarter of 2007, we hedged currency exposure related to new longer term intercompany loans with foreign subsidiaries. As of June 30, 2007, we had hedged forecasted foreign currency transactions for periods not exceeding the next 54 months.

Hedging activities affected accumulated other comprehensive earnings (losses), net of income taxes, as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Accumulated loss at beginning of period	$ (2)	$ –	$ (4)	$ (4)
Transfer of realized (gains) losses in fair value to earnings	(2)	1	(3)	10
Unrealized gain (loss) in fair value	32	(4)	35	(9)
Accumulated gain (loss) at June 30	$ 28	$ (3)	$ 28	$ (3)

Note 13. Benefit Plans:

We sponsor noncontributory defined benefit pension plans covering most U.S. employees. As appropriate, we provide pension coverage for employees of our non-U.S. subsidiaries through separate plans. Local statutory requirements govern many of these plans. In addition, 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.

Pension Plans:

Components of Net Periodic Pension Cost

Net periodic pension cost consisted of the following for the three and six months ended June 30, 2007 and 2006:

	U.S. Plans For the Three Months Ended June 30,		Non-U.S. Plans For the Three Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)			
Service cost	$ 39	$ 41	$ 24	$ 23
Interest cost	91	88	47	42
Expected return on plan assets	(132)	(127)	(61)	(50)
Amortization:				
Net loss from experience differences	34	51	17	17
Prior service cost	1	2	2	2
Other expense	34	–	–	–
Net periodic pension cost	$ 67	$ 55	$ 29	$ 34

	U.S. Plans For the Six Months Ended June 30,		Non-U.S. Plans For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)			
Service cost	$ 79	$ 85	$ 48	$ 46
Interest cost	182	177	93	83
Expected return on plan assets	(262)	(252)	(120)	(99)
Amortization:				
Net loss from experience differences	70	99	32	34
Prior service cost	3	3	4	4
Other expense	34	–	–	–
Net periodic pension cost	$ 106	$ 112	$ 57	$ 68

During the second quarter of 2007, employees left Kraft under workforce reduction programs, resulting in settlement losses of $15 million for the U.S. plans. In addition, retiring employees elected lump-sum payments, resulting in settlement losses of $19 million in the second quarter of 2007. These costs are included in other expense, above.

Employer Contributions

We make contributions to our U.S. and non-U.S. pension plans to the extent that they are tax deductible and do not generate an excise tax liability. During the six months ended June 30, 2007, we contributed $10 million to our U.S. plans and $75 million to our non-U.S. plans. We currently plan to make additional contributions of approximately $6 million to our U.S. plans and approximately $82 million to our non-U.S. plans during the remainder of 2007. However, our actual contributions may be different due to many factors. Those factors include changes in tax and other benefit laws, pension asset performance that differs significantly from the expected performance, or significant changes in interest rates.

Postretirement Benefit Plans:

Net postretirement health care costs consisted of the following for the three and six months ended June 30, 2007 and 2006:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Service cost	$ 11	$ 12	$ 24	$ 25
Interest cost	42	42	88	87
Amortization:				
Net loss from experience differences	12	16	29	41
Prior service credit	(7)	(7)	(13)	(13)
Net postretirement health care costs	$ 58	$ 63	$ 128	$ 140

Postemployment Benefit Plans:

Net postemployment costs consisted of the following for the three and six months ended June 30, 2007 and 2006:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Service cost	$ 1	$ 2	$ 2	$ 3
Interest cost	2	1	3	2
Amortization of unrecognized net gains	1	(2)	(1)	(4)
Other expense	11	68	59	116
Net postemployment costs	$ 15	$ 69	$ 63	$ 117

As previously discussed in Note 2, *Asset Impairment, Exit and Implementation Costs*, we announced several workforce reduction programs as part of the Restructuring Program. The cost of these programs was $11 million during the three months and $59 million during the six months ended June 30, 2007. These costs are included in other expense, above.

Note 14. Income Taxes:

Kraft accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Prior to the Distribution, Altria included our U.S. accounts in its consolidated federal income tax return, and 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. We made payments to, or were reimbursed by, Altria for the tax effects resulting from being included in Altria's tax return, including current taxes payable and net changes in tax provisions. As of March 31, 2007, we are no longer a member of the Altria consolidated tax return group and will file our own federal consolidated income tax return. Altria also previously carried our federal tax contingencies on its balance sheet and reported them in its financial statements. As a result of the Distribution, Altria transferred our federal tax contingencies of $375 million to our balance sheet and related interest income of $77 million at the end of the first quarter of 2007. During the quarter, 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 FASB Interpretation No. 48. This amount is reflected within "other" in the operating activities section of the condensed consolidated statement of cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for the Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* ("FIN 48"). The provisions of FIN 48 became effective for us as of January 1, 2007. FIN 48 clarifies when tax benefits should be recorded in the financial statements and provides 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 FIN 48, 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 FIN 48 resulted in an increase to shareholders' equity as of January 1, 2007 of $213 million and resulted from:

- a $265 million decrease in the liability for unrecognized tax benefits, comprised of $247 million in tax and $18 million in interest;
- a reduction in goodwill of $85 million; and
- an increase to federal and state deferred tax assets of $33 million.

As of January 1, 2007, after the implementation of FIN 48, our unrecognized tax benefits were $667 million. If we had recognized all of these benefits, the net impact on our effective tax rate would have been $530 million. There were no material changes due to settlements with tax authorities or the expiration of the statute of limitations during the six months ended June 30, 2007. As a result, the change in our unrecognized tax benefits during the six months ended June 30, 2007 was insignificant. We expect that the amount of unrecognized tax benefits will increase by approximately $65-$80 million from a variety of federal, state and foreign tax positions during the next 12 months. We include accrued interest and penalties related to uncertain tax positions in our tax provision. As of January 1, 2007, we had $125 million of accrued interest and penalties. The change in accrued interest and penalties during the six months ended June 30, 2007 was insignificant.

We are regularly examined by various federal, state and foreign tax authorities. The U.S. federal statute of limitations remains open for the year 2000 and onward, with years 2000 through 2003 currently under examination by the IRS. Taxing authorities in various U.S. state and foreign jurisdictions are currently examining us. U.S. state and foreign jurisdictions have statutes of limitations generally ranging from 3 to 5 years. Years still open to examination by foreign tax authorities in major jurisdictions include Germany (1999 onward), Brazil (2001 onward), Canada (2001 onward) and Spain (2001 onward).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Description of the Company

Kraft manufactures and markets packaged food products, including beverages, cheese, snacks, convenient meals and various packaged grocery products. We manage and report operating results through two commercial units, Kraft North America and Kraft International. We manage Kraft North America's operations by product category, and Kraft International's operations by geographic location.

In the first quarter of 2007, Altria Group, Inc. ("Altria") spun off its entire interest (89.0%) in Kraft 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 shares owned by Altria were distributed to Altria's stockholders, and our separation from Altria was completed (the "Distribution"). Before the Distribution, Altria converted its Class B shares of Kraft common stock into Class A shares of our common stock. The Distribution ratio was calculated by dividing the number of shares of Kraft Common Stock held by Altria by the number of Altria shares outstanding on the date of record, March 16, 2007. Based on the calculation, the Distribution ratio was 0.692024 shares of Kraft Common Stock for every share of Altria common stock outstanding. Following the Distribution, we only have Class A common stock outstanding.

Executive Summary

The following executive summary provides significant highlights of the Discussion and Analysis that follows.

- Net revenues in the second quarter of 2007 increased 6.8% to $9.2 billion and increased 6.3% to $17.8 billion in the first six months of 2007.
- Diluted EPS in the second quarter of 2007 increased 7.3% to $0.44 and decreased 14.7% to $0.87 in the first six months of 2007.
- On July 3, 2007, we announced a binding offer to acquire the global biscuit business of Groupe Danone S.A. for €5.3 billion (approximately $7.2 billion) in cash. The transaction is subject to customary closing conditions, including regulatory approval, and we expect it to close by the end of 2007.
- We recorded Restructuring Program charges of $157 million during the three months and $245 million during the six months ended June 30, 2007.
- A new $5.0 billion, two-year share repurchase plan went into effect immediately following the Distribution. During the second quarter of 2007, we repurchased 60.7 million shares of our Common Stock for approximately $2.0 billion.

Discussion and Analysis

The following table shows the significant changes in our net earnings and diluted EPS between the three months ended June 30, 2007 and 2006, and between the six months ended June 30, 2007 and 2006 (in millions, except per share data):

	For the Three Months Ended		For the Six Months Ended	
	Net Earnings	Diluted EPS	Net Earnings	Diluted EPS
June 30, 2006	$ 682	$ 0.41	$ 1,688	$ 1.02
2007 Gains (losses) on sales of businesses	6	–	(2)	–
2006 (Gains) losses on sales of businesses	8	–	10	0.01
2007 Restructuring Program	(101)	(0.06)	(157)	(0.10)
2006 Restructuring Program	162	0.10	236	0.14
2006 Asset impairment charges	–	–	78	0.05
Change in tax rate	11	0.01	(4)	–
Interest from tax reserve transfers from Altria Group, Inc.	–	–	50	0.03
Favorable resolution of the Altria Group, Inc. 1996-1999 IRS Tax Audit	–	–	(405)	(0.24)
Shares outstanding	–	0.02	–	0.02
Operations	(61)	(0.04)	(85)	(0.06)
June 30, 2007	$ 707	$ 0.44	$ 1,409	$ 0.87

See below for a discussion of those events affecting comparability and a discussion of operating results.

Acquisitions and Dispositions

On July 3, 2007, we announced a binding offer to acquire the global biscuit business of Groupe Danone S.A. ("Groupe Danone") for €5.3 billion (approximately $7.2 billion) in cash. Groupe Danone's global biscuit business generated revenues of approximately $2.7 billion during 2006. The transaction is subject to customary closing conditions, including regulatory approval. We expect it to close by the end of 2007.

In September 2006, we acquired the Spanish and Portuguese operations of United Biscuits ("UB") for approximately $1.1 billion. The non-cash acquisition was financed by our assumption of $541 million of debt issued by the acquired business immediately prior to the acquisition, as well as $530 million of value for the redemption of our outstanding investment in UB, primarily deep-discount securities. As part of the transaction, we also recovered the rights to all Nabisco trademarks in the European Union, Eastern Europe, the Middle East and Africa, which UB had held since 2000. The Spanish and Portuguese operations of UB include its biscuits, dry desserts, canned meats, tomato and fruit juice businesses. The operations also include seven manufacturing facilities and 1,300 employees. These businesses contributed net revenues of approximately $118 million during the three months and $215 million during the six months ended June 30, 2007.

During the second quarter of 2007, we sold sugar confectionery assets in Romania and related trademarks. During the first quarter of 2007, we sold our hot cereal assets and trademarks. In aggregate, we received $203 million in proceeds, and recorded pre-tax gains of $20 million on these sales. We recorded an after tax loss of $8 million on the hot cereal assets and trademarks sale due to the differing tax bases.

In 2006, we received $946 million in proceeds, and recorded gains of $117 million on the following sales. During the first quarter of 2006, we sold certain Canadian assets and a small U.S. biscuit brand. We incurred asset impairment charges of $176 million in the fourth quarter of 2005 in recognition of these sales. During the second quarter of 2006, we sold our industrial coconut assets. During the third quarter of 2006, we sold our pet snacks brand and assets and recorded tax expense of $57 million related to the sale. In addition, we incurred an asset impairment charge of $86 million in the first quarter of 2006 in connection with this sale. During the fourth quarter of 2006, we sold our rice brand and assets and a U.S. coffee plant.

The aggregate operating results of the businesses sold were not material to our financial statements in any of the periods presented.

Restructuring Program

In January 2004, we announced a three-year restructuring program (the "Restructuring Program") and, in January 2006, extended it through 2008. The objectives of this program are to leverage our global scale, realign and lower our cost structure, and optimize capacity. As part of the Restructuring Program we anticipate:

- incurring approximately $3.0 billion in pre-tax charges reflecting asset disposals, severance and implementation costs, including approximately $575 million of the charges during 2007;
- closing up to 40 facilities and eliminating approximately 14,000 positions; and
- using cash to pay for approximately $1.9 billion of the $3.0 billion in charges.

We incurred charges under the Restructuring Program of $157 million during the three months and $245 million during the six months ended June 30, 2007, and $243 million during the three months and $348 million during the six months ended June 30, 2006. In total, we have incurred $1.9 billion in charges since the inception of the Restructuring Program. We expect to pay cash for approximately 60% of the charges. In connection with severance programs announced since 2004, we expect to eliminate approximately 10,500 positions. As of June 30, 2007, we had eliminated approximately 9,800 of these positions.

In addition, we expect to spend approximately $550 million in capital to implement the Restructuring Program. We have spent $300 million in capital since the inception of the Restructuring Program, including $55 million spent in the first six months of 2007. Cumulative annualized cost savings resulting from the Restructuring Program were approximately $540 million through 2006. Cost savings totaled approximately $120 million in the first six months of 2007, resulting in cumulative annualized savings under the Restructuring Program of approximately $660 million to date. We expect these savings to reach approximately $725 million by the end of 2007. Refer to Note 2, *Asset Impairment, Exit and Implementation Costs*, for further details of our Restructuring Program.

Asset Impairment Charges

During the first quarter of 2007, we completed our annual review of goodwill and intangible assets. No impairments resulted from this review. During the first quarter of 2006, we completed our annual review of goodwill and intangible assets and recorded a $24 million non-cash charge for impairment of biscuits assets in Egypt and hot cereal assets in the U.S. We recorded these charges as asset impairment and exit costs on the condensed consolidated statement of earnings.

During the first quarter of 2007, we sold our hot cereal assets and trademarks for a pre-tax gain of $12 million. We previously incurred an asset impairment charge of $69 million in the fourth quarter of 2006 in connection with this sale. The charge included the write-off of a portion of the associated goodwill, intangible assets and property, plant and equipment. We recorded the charge as asset impairment and exit costs on the 2006 consolidated statement of earnings, and no further charges were incurred in 2007. In the first quarter of 2006, we incurred an asset impairment charge of $86 million in anticipation of the pet snacks brand and assets sale. The charge included the write-off of a portion of the associated goodwill, intangible assets and property, plant and equipment. We recorded aggregate asset impairment charges in the first quarter of 2006 amounting to $110 million or $0.05 per diluted share.

Provision for Income Taxes

Our tax rate was 32.0% in the second quarter of 2007 and 32.8% in the first six months of 2007. Our provision for income taxes includes a net benefit of $19 million in the second quarter of 2007 primarily resulting from the resolution of outstanding items in our international operations and various state jurisdictions. For the first six months of 2007, the provision includes a net tax benefit of $8 million primarily resulting from the second quarter resolutions, partially offset by tax costs associated with the sale of our hot cereal assets and trademarks.

As discussed in Note 14, *Income Taxes*, Altria transferred our federal tax contingencies of $375 million to our balance sheet and related interest income of $77 million at the end of the first quarter of 2007, as a result of the Distribution (or $0.03 per diluted share). Following the Distribution, we are no longer a member of the Altria consolidated tax return group, and we will file our own federal consolidated income tax return. As a result of filing separately, we currently estimate the annual amount of lost tax benefits to be in the range of $50 million to $75 million.

In the first quarter of 2006, the IRS concluded its examination of Altria's consolidated tax returns for the years 1996 through 1999. The IRS issued a final Revenue Agents Report on March 15, 2006. Consequently, Altria reimbursed us $337 million for federal tax reserves that were no longer necessary and $46 million for interest ($29 million net of tax). We also recognized net state tax reversals of $39 million, for a total tax provision benefit of $376 million ($337 million federal plus $39 million state). The total benefit to net earnings that we recognized in the first quarter of 2006 due to the IRS settlement was $405 million, or $0.24 per diluted share.

Consolidated Results of Operations

The following discussion compares our consolidated results of operations for the three months ended June 30, 2007 and 2006, as well as the six months ended June 30, 2007 and 2006.

Many factors impact 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, our initiatives to improve supply chain efficiency, the financial condition of our customers and general economic conditions. For instance, changes in the timing of the Easter holiday will often affect first and second quarter comparisons with the prior year.

	For the Three Months Ended June 30,			
	2007	2006	$ change	% change
	(in millions, except per share data)			
Net revenues	$ 9,205	$ 8,619	$ 586	6.8%
Operating income	1,188	1,176	12	1.0%
Net earnings	$ 707	$ 682	25	3.7%
Weighted average shares for diluted earnings per share	1,606	1,656		
Diluted earnings per share	$ 0.44	$ 0.41		

	For the Six Months Ended June 30, 2007	2006	$ change	% change
	(in millions, except per share data)			
Net revenues	$ 17,791	$ 16,742	$ 1,049	6.3%
Operating income	2,310	2,193	117	5.3%
Net earnings	$ 1,409	$ 1,688	(279)	(16.5%)
Weighted average shares for diluted earnings per share	1,623	1,661		
Diluted earnings per share	$ 0.87	$ 1.02		

Three Months Ended June 30:
Net Revenues - Net revenues increased $586 million (6.8%), due to favorable mix (3.1 pp), favorable currency (2.2 pp), higher pricing, net of increased promotional spending (1.7 pp) and the impact of acquisitions (1.4 pp), partially offset by the impact of divestitures (0.9 pp) and lower volume (0.7 pp). Currency movements increased net revenues by $190 million due primarily to the continuing weakness of the U.S. dollar against the euro. Total volume decreased 0.2%, resulting from declines in all North American segments due primarily to the impact of divestitures and declines in ready to drink beverages, partially offset by higher shipments in European Union and Developing Markets.

Operating Income - Operating income increased $12 million (1.0%), due primarily to favorable volume/mix ($93 million), and lower Restructuring Program charges ($86 million), partially offset by higher marketing, administration and research costs ($138 million, including higher marketing support), and higher total manufacturing costs, including higher commodity costs, net of the impact of higher pricing ($43 million). Currency movements increased operating income by $17 million due primarily to the continuing weakness of the U.S. dollar against the euro.

Net Earnings - Net earnings of $707 million increased by $25 million (3.7%) driven by a favorable tax rate and operating income increases.

Earnings per Share - Second quarter 2007 diluted earnings per share were $0.44, up 7.3% from $0.41 in 2006. During second quarter 2007, we incurred $0.06 per diluted share ($157 million before taxes) in Restructuring Program costs as compared to $0.10 per diluted share ($243 million before taxes) in the second quarter of 2006.

Six Months Ended June 30:
Net Revenues - Net revenues increased $1,049 million (6.3%), due primarily to favorable mix (2.7 pp), favorable currency (2.1 pp), the impact of acquisitions (1.3 pp) and higher pricing, net of increased promotional spending (1.0 pp), partially offset by the impact of divestitures (1.0 pp). Currency movements increased net revenues by $362 million due primarily to the continuing weakness of the U.S. dollar against the euro. Total volume increased 0.3%, driven by higher shipments in the European Union and Developing Markets, partially offset by lower volume in all North American segments due primarily to the impact of divestitures and declines in ready to drink beverages.

Operating Income - Operating income increased $117 million (5.3%), due primarily to favorable volume/mix ($210 million), 2006 asset impairment charges related to the divested pet snacks and hot cereal assets and trademarks and biscuits assets in Egypt ($110 million), and lower Restructuring Program charges ($103 million), partially offset by higher marketing, administration and research costs ($257 million, including higher marketing support), and higher total manufacturing costs, including higher commodity costs, net of the impact of higher pricing ($77 million). Currency movements increased operating income by $39 million due primarily to the continuing weakness of the U.S. dollar against the euro.

Net Earnings - Net earnings of $1,409 million decreased by $279 million (16.5%) primarily due to a favorable tax rate in 2006 from a significant tax resolution.

Earnings per Share - In the first six months of 2007 diluted earnings per share were $0.87, down 14.7% from $1.02 in 2006. During the first six months of 2007, we incurred $0.10 per diluted share ($245 million before taxes) in Restructuring Program costs as compared to $0.14 per diluted share ($348 million before taxes) in the first six months of 2006. Due to the Distribution, we recognized interest income of $0.03 per diluted share ($77 million before taxes) from tax reserve transfers from Altria. In the first quarter of 2006, we benefited from favorable federal and state tax resolutions amounting to $405 million, or $0.24 per diluted share. Additionally, we recorded asset impairment charges in the first quarter of 2006 amounting to $110 million or $0.05 per diluted share.

Results of Operations by Business Segment

The following discussion compares the operating results of each of our reportable segments for the three months ended June 30, 2007 and 2006, and also compares the six months ended June 30, 2007 and 2006.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Net revenues:				
North America Beverages	$ 854	$ 819	$ 1,680	$ 1,614
North America Cheese & Foodservice	1,540	1,495	3,008	2,964
North America Convenient Meals	1,274	1,230	2,520	2,444
North America Grocery	776	790	1,399	1,422
North America Snacks & Cereals	1,618	1,611	3,157	3,144
European Union	1,841	1,539	3,591	3,006
Developing Markets(1)	1,302	1,135	2,436	2,148
Net revenues	$ 9,205	$ 8,619	$ 17,791	$ 16,742

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions)		(in millions)	
Operating income:				
Segment operating income:				
North America Beverages	$ 134	$ 115	$ 273	$ 262
North America Cheese & Foodservice	149	179	342	382
North America Convenient Meals	158	185	341	385
North America Grocery	267	294	467	498
North America Snacks & Cereals	266	269	514	411
European Union	125	86	243	215
Developing Markets(1)	136	98	229	133
General corporate expenses	(43)	(47)	(93)	(88)
Amortization of intangibles	(4)	(3)	(6)	(5)
Operating income	$ 1,188	$ 1,176	$ 2,310	$ 2,193

(1) This segment was formerly known as Developing Markets, Oceania & North Asia

As discussed in Note 11, *Segment Reporting*, our management uses segment operating income to evaluate segment performance and allocate resources. Segment operating income excludes unallocated general corporate expenses and amortization of intangibles. Management believes it is appropriate to disclose this measure to help investors analyze segment performance and trends. Refer to Note 2, *Asset Impairment, Exit and Implementation Costs*, for a breakout of charges by segment.

North America Beverages

	For the Three Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 854	$ 819	$ 35	4.3%
Segment operating income	134	115	19	16.5%

	For the Six Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 1,680	$ 1,614	$ 66	4.1%
Segment operating income	273	262	11	4.2%

Three Months Ended June 30:
Net revenues increased $35 million (4.3%), due to favorable mix (8.9 pp) and higher net pricing (1.0 pp), partially offset by lower volume (5.6 pp). Favorable mix was driven by *Crystal Light On the Go* base growth and new products, and growth in premium coffee. Higher commodity related pricing in coffee was partially offset by higher promotional spending. Net revenues growth in the quarter was partially offset by ongoing weakness in ready-to-drink beverages and lower shipments of *Maxwell House* coffee.

Segment operating income increased $19 million (16.5%) due primarily to favorable mix, partially offset by higher commodity costs (primarily coffee and packaging).

Six Months Ended June 30:
Net revenues increased $66 million (4.1%), due to favorable mix (6.5 pp) and higher net pricing (0.5 pp), which was partially offset by lower volume (2.9 pp). Favorable mix from *Crystal Light On the Go* sticks and premium coffee drove higher net revenues. Higher commodity based pricing in coffee was partially offset by increased promotional spending in ready-to-drink beverages. Net revenues growth was tempered by lower shipments of *Maxwell House* coffee and ready-to-drink beverages.

Segment operating income increased $11 million (4.2%), due primarily to favorable mix, partially offset by higher commodity costs (primarily coffee and packaging).

North America Cheese & Foodservice

	For the Three Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 1,540	$ 1,495	$ 45	3.0%
Segment operating income	149	179	(30)	(16.8%)

	For the Six Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 3,008	$ 2,964	$ 44	1.5%
Segment operating income	342	382	(40)	(10.5%)

Three Months Ended June 30:
Net revenues increased $45 million (3.0%) due primarily to higher commodity based pricing (4.4 pp) and favorable mix (0.7 pp), partially offset by lower volume (1.8 pp). Cheese net revenues increased, driven by commodity based pricing and favorable mix from new product introductions, partially offset by lower shipments. In foodservice, net revenues growth from commodity based pricing was partially offset by lower volume due to the discontinuation of lower margin product lines and unfavorable mix.

Segment operating income decreased $30 million (16.8%), as the favorable impact of pricing was more than offset by higher commodity costs, higher marketing, administration and research costs (including higher marketing support) and higher implementation costs related to the Restructuring Program. The change was partially offset by lower Restructuring Program charges and a 2006 loss on the sale of industrial coconut assets.

Six Months Ended June 30:
Net revenues increased $44 million (1.5%), due primarily to higher commodity based net pricing (2.6 pp) and favorable mix (0.5 pp), offset by lower volume (1.2 pp). Cheese net revenues increased driven by higher pricing and favorable volume and mix. In foodservice, net revenues declined due to the discontinuation of lower margin product lines and unfavorable mix, partially offset by higher commodity based net pricing.

Segment operating income decreased $40 million (10.5%) due primarily to higher marketing, administration and research costs (including higher marketing support).

North America Convenient Meals

	For the Three Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 1,274	$ 1,230	$ 44	3.6%
Segment operating income	158	185	(27)	(14.6%)

	For the Six Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 2,520	$ 2,444	$ 76	3.1%
Segment operating income	341	385	(44)	(11.4%)

Three Months Ended June 30:
Net revenues increased $44 million (3.6%), due to favorable mix (3.4 pp), higher net pricing (1.2 pp) and higher volume (0.7 pp), partially offset by the impact of the divested rice brand and assets (1.7 pp). Favorable product mix and higher volume from new product introductions including *Oscar Mayer Deli Creations* and *DiGiorno Ultimate* pizza and the continued success of *Oscar Mayer Deli Shaved* sandwich meat and *California Pizza Kitchen* pizza drove higher net revenues. Higher volume from new products was partially offset by lower shipments of chicken strips due to a first quarter recall. Meat net revenues also grew driven by higher commodity based net pricing, primarily in bacon.

Segment operating income decreased $27 million (14.6%) as gains from higher pricing and lower Restructuring Program charges were more than offset by higher commodity costs, higher marketing, administration and research costs and the impact of divestitures.

Six Months Ended June 30:
Net revenues increased $76 million (3.1%), due to favorable mix (2.9 pp), higher volume (1.3 pp) and higher net pricing (0.8 pp), offset by the impact of divestitures (1.9 pp). Net revenues increased in meat due to higher shipments of sandwich meat, new product introductions, favorable mix and higher commodity based net pricing, partially offset by lower shipments of chicken strips due to a first quarter recall. In pizza, net revenues increased due to the introduction of *DiGiorno Ultimate* and higher shipments of *California Pizza Kitchen* products. Macaroni and cheese net revenues also increased due to higher pricing, net of increased promotional spending, and favorable mix.

Segment operating income decreased $44 million (11.4%), as gains from higher pricing and lower Restructuring Program charges were more than offset by higher commodity costs, higher marketing, administration and research costs and the impact of divestitures.

North America Grocery

	For the Three Months Ended June 30,			
	2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 776	$ 790	$ (14)	(1.8%)
Segment operating income	267	294	(27)	(9.2%)

	For the Six Months Ended June 30,			
	2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 1,399	$ 1,422	$ (23)	(1.6%)
Segment operating income	467	498	(31)	(6.2%)

Three Months Ended June 30:
Net revenues decreased $14 million (1.8%), due primarily to lower volume (2.3 pp), partially offset by higher net pricing (0.6 pp). Net revenues declined due to lower shipments in spoonable and pourable salad dressings and dry packaged desserts, partially offset by higher net pricing in spoonables and dry packaged desserts.

Segment operating income decreased $27 million (9.2%), due primarily to unfavorable volume/mix.

Six Months Ended June 30:
Net revenues decreased $23 million (1.6%), due primarily to lower volume (1.5 pp) and the impact of divestitures (0.5 pp), partially offset by higher net pricing (0.8 pp). The impact of lower shipments in barbeque sauce and spoonable and pourable salad dressings was partially offset by higher net pricing in spoonable salad dressings and dry packaged desserts.

Segment operating income decreased $31 million (6.2%), due primarily to unfavorable volume/mix and higher marketing, administration and research costs.

North America Snacks & Cereals

	For the Three Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 1,618	$ 1,611	$ 7	0.4%
Segment operating income	266	269	(3)	(1.1%)

	For the Six Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 3,157	$ 3,144	$ 13	0.4%
Segment operating income	514	411	103	25.1%

Three Months Ended June 30:
Net revenues increased $7 million (0.4%), due primarily to favorable mix (2.6 pp) and higher volume (0.8 pp), partially offset by the impact of the pet snack and hot cereal divestitures (3.3 pp). Biscuit net revenues increased, driven by favorable mix in cookies. Net revenues growth in bars was driven by higher volume due to the introduction of *Nabisco* 100 Calorie Packs and *Back to Nature* bars.

Segment operating income decreased $3 million (1.1%), due primarily to higher marketing, administration and research costs (including higher marketing support) and the impact of divestitures, partially offset by favorable volume/mix and lower manufacturing costs (productivity, partially offset by higher commodities).

Six Months Ended June 30:
Net revenues increased $13 million (0.4%), due primarily to favorable mix (2.4 pp) and higher volume (1.8 pp), partially offset by the impact of divestitures (3.5 pp). Favorable mix and higher shipments in cookies and crackers due to new product introductions drove higher net revenues. Bar net revenues increased due to new product introductions and continued success of *South Beach Diet* bars.

Segment operating income increased $103 million (25.1%), due primarily to a 2006 asset impairment charge related to the divested pet snacks and hot cereal assets and trademarks, favorable volume/mix and lower manufacturing costs. Higher marketing, administration and research costs (including higher marketing support) and the impact of divestitures, partially offset the segment operating income favorability.

European Union

	For the Three Months Ended June 30,			
	2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 1,841	$ 1,539	$ 302	19.6%
Segment operating income	125	86	39	45.3%

	For the Six Months Ended June 30,			
	2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 3,591	$ 3,006	$ 585	19.5%
Segment operating income	243	215	28	13.0%

Three Months Ended June 30:
Net revenues increased $302 million (19.6%), due to favorable currency (10.2 pp), the impact of the UB acquisition (7.4 pp), higher volume (1.8 pp) and favorable mix (1.6 pp), partially offset by lower net pricing (1.4 pp). Net revenues increased, driven by volume growth and favorable mix in coffee and chocolate due to new product introductions and higher marketing support. Lower net pricing reflects higher spending to promote premium chocolate products and to counter price based competition in mainstream coffee in Germany.

Segment operating income increased $39 million (45.3%), due primarily to lower Restructuring Program charges, favorable volume/mix, lower fixed manufacturing costs, favorable currency and the impact of the UB acquisition. Offsetting these favorabilities were higher marketing, administration and research costs (including an $18 million gain on sale of a manufacturing plant in 2006), higher commodity costs, lower net pricing and higher implementation costs associated with the Restructuring Program.

Six Months Ended June 30:
Net revenues increased $585 million (19.5%), due to favorable currency (10.1 pp), the impact of the UB acquisition (7.0 pp), higher volume (2.4 pp) and favorable mix (1.7 pp), partially offset by lower net pricing (1.7 pp). Volume related growth and favorable mix was driven by premium chocolate, due to new product introductions and promotional activities, and higher shipments in mainstream coffee. Lower net pricing reflects higher promotional spending in chocolate and cheese, and feature pricing in coffee in Germany.

Segment operating income increased $28 million (13.0%) as favorable volume/mix, higher net pricing, favorable currency, the impact of the UB acquisition, lower fixed manufacturing costs, lower Restructuring Program charges and a 2006 asset impairment charge related to the divested biscuits assets in Egypt more than offset higher marketing, administration and research costs, higher commodity costs and higher implementation costs associated with the Restructuring Program.

Developing Markets

	For the Three Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 1,302	$ 1,135	$ 167	14.7%
Segment operating income	136	98	38	38.8%

	For the Six Months Ended June 30, 2007	2006	$ change	% change
	(in millions)			
Net revenues	$ 2,436	$ 2,148	$ 288	13.4%
Segment operating income	229	133	96	72.2%

Three Months Ended June 30:
Net revenues increased $167 million (14.7%), due primarily to higher net pricing (5.8 pp), higher volume (3.7 pp), favorable currency (2.9 pp) and favorable mix (2.0 pp). In Eastern Europe, Middle East & Africa, net revenues increased, driven by growth in coffee and chocolate and pricing in Russia, Romania and Ukraine. Latin American net revenues increased, driven by favorable mix and pricing in Brazil, favorable volume/mix and higher pricing in Argentina and higher pricing in Venezuela. In Asia Pacific, net revenues increased, primarily due to currency.

Segment operating income increased $38 million (38.8%), due primarily to the contribution of higher pricing, favorable volume/mix, lower Restructuring Program costs and a gain on the sale of sugar confectionery assets in Romania and related trademarks, partially offset by higher marketing, administration and research costs (including higher marketing support) and higher input costs.

Six Months Ended June 30:
Net revenues increased $288 million (13.4%), due primarily to higher net pricing (4.7 pp), favorable currency (3.0pp), higher volume (2.8 pp) and favorable mix (2.7 pp). In Eastern Europe, Middle East & Africa, net revenues increased due to growth in coffee and chocolate in Russia, Romania and Ukraine. Latin American net revenues increased due to higher pricing and favorable volume and mix, particularly in Brazil, Venezuela and Argentina. In Asia Pacific, net revenues increased, due primarily to currency.

Segment operating income increased $96 million (72.2%) due primarily to lower Restructuring Program costs, favorable volume/mix and the contribution of higher pricing, partially offset by higher marketing, administration and research costs and higher input costs.

Liquidity

Net Cash Provided by Operating Activities:
During the first six months of 2007, operating activities provided $1,410 million net cash, compared with $1,606 million in the comparable 2006 period. Operating cash flows decreased in the first six months of 2007 in comparison with the same period in 2006 primarily because of the previously discussed tax reimbursement from Altria in 2006 related to the closure of a tax audit and higher working capital, primarily inventories, due to increased commodity costs. The decrease in operating cash flows was partially offset by the previously discussed tax transfer from Altria upon the Distribution.

Net Cash Used in Investing Activities:
During the first six months of 2007, net cash used in investing activities was $293 million, compared with $296 million in the first six months of 2006. The slight decrease in cash used in investing activities primarily relates to higher proceeds from the sales of businesses, partially offset by higher capital expenditures in 2007. During the first six months of 2007, we sold sugar confectionery assets in Romania and related trademarks, as well as hot cereal assets and trademarks. During the first six months of 2006, we sold our industrial coconut assets, certain Canadian assets and a small U.S. biscuit brand.

Capital expenditures for the first six months of 2007 were $506 million, compared with $450 million in the first six months of 2006. We expect full-year capital expenditures to be flat to 2006 expenditures of $1.2 billion, including capital expenditures required for the Restructuring Program and systems investments. We expect to fund these expenditures from operations.

Net Cash Used in Financing Activities:
During the first six months of 2007, we used $950 million net cash in financing activities, compared with $1,249 million that we used during the first six months of 2006. The decrease in net cash used in financing activities is due primarily to the issuance of new commercial paper, partially offset by an increase in our Common Stock share repurchases and the repayment of long-term debt that matured in the first six months of 2007.

Debt:
Our total debt was $12.5 billion at June 30, 2007, and $10.8 billion at December 31, 2006. Our total debt balance at December 31, 2006, included amounts due to Altria and affiliates. Our debt-to-capitalization ratio was 0.31 at June 30, 2007, and 0.27 at December 31, 2006.

In June 2007, $1.0 billion of our long-term debt matured. In July 2007, an additional $400 million of our long-term debt matured. We repaid the debt with the proceeds from the issuance of commercial paper.

We had short-term amounts payable to Altria and affiliates of $5 million at June 30, 2007 and $607 million at December 31, 2006, which included $364 million of accrued dividends. Current amounts due to Altria reflect fees for transition services. Prior to the Distribution, the amounts payable to Altria generally included accrued dividends, taxes and service fees.

Credit Ratings:
Subsequent to the announcement of our binding offer to acquire the global biscuit business of Groupe Danone, Standard & Poor's affirmed our short-term credit rating of A-1 and our long-term debt rating of A-, and revised the outlook from stable to negative. Moody's downgraded our long-term credit rating from Baa1 to Baa2 with stable outlook and affirmed our short-term credit rating of P-2. Fitch downgraded the long-term credit rating from A- to BBB+, with a negative outlook, and affirmed the short-term credit rating at F2.

Credit Lines:
We maintain revolving credit facilities that we have historically used for general corporate purposes and to support our commercial paper issuances. We have a $4.5 billion, multi-year revolving credit facility that expires in April 2010. On May 24, 2007, we entered into a $1.5 billion, 364-day revolving credit agreement. No amounts were drawn on either of these facilities at June 30, 2007.

On July 2, 2007, we entered into a commitment letter in connection with a proposed senior unsecured 364-day bridge facility for €5.3 billion (approximately $7.2 billion). We plan to use the facility to finance the Groupe Danone biscuit business acquisition. We intend to repay borrowings under this facility from proceeds of the issuance of investment grade bonds or other securities.

Our revolving credit facilities require us to maintain a net worth of at least $20.0 billion. At June 30, 2007, we had a $27.5 billion net worth. We expect to continue to meet this covenant. The revolving credit facilities have no other financial covenants, credit rating triggers or provisions that could require us to post collateral as security. We refinance long-term and short-term debt from time to time. 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.

In addition to the above, some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. These credit lines amounted to approximately $1.5 billion at June 30, 2007. At June 30, 2007, borrowings on these lines amounted to approximately $520 million.

Guarantees:
As discussed in Note 8, *Contingencies*, at June 30, 2007, we have third-party guarantees because of our acquisition, divestiture and construction activities. As part of those transactions, we guarantee that third parties will make contractual payments or achieve performance measures. At June 30, 2007, our third-party guarantees were approximately $27 million, of which approximately $7 million have no specified expiration dates. Substantially all of the remainder expire at various times through 2016. We have a liability of $21 million on our condensed consolidated balance sheet at June 30, 2007, relating to these guarantees.

In addition, at June 30, 2007, we were contingently liable for $235 million of guarantees related to our own performance. These include surety bonds related to dairy commodity purchases and guarantees related to the payment of custom duties and taxes, and letters of credit.

Guarantees do not have, and we do not expect them to have a significant impact on our liquidity. We believe that our cash from operations and our existing credit facilities will provide sufficient liquidity to meet our working capital needs (including the cash requirements of the Restructuring Program), planned capital expenditures, future contractual obligations and payment of our anticipated quarterly dividends.

Equity and Dividends

Stock Repurchases:
Our Board of Directors authorized the following Common Stock repurchase programs. We are not obligated to repurchase any of our Common Stock and may suspend any program at our discretion.

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 second quarter 2007 (millions of shares)	$2.0 billion (60.7 shares)	
Aggregate cost of shares repurchased in 2007 (millions of shares)	$2.0 billion (60.7 shares)	$140 million (4.4 shares)
Aggregate cost of shares repurchased life-to-date under program (millions of shares)	$2.0 billion (60.7 shares)	$1.1 billion (34.7 shares)

The total repurchases under the above programs for the first six months of 2007 were 65.1 million shares for approximately $2.1 billion.

Additionally, in March 2007, we repurchased 1.4 million 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 Common Stock as reported on the NYSE on March 1, 2007. This repurchase was in accordance with the Distribution agreement.

Stock Awards:
As discussed in Note 6, *Stock Plans*, our Board of Directors approved a stock option grant to Irene B. Rosenfeld on May 3, 2007, to recognize her election as our Chairman. Ms. Rosenfeld received 300,000 stock options under the 2005 Performance Incentive Plan, which vest under varying market and service conditions and expire ten years after the grant date.

Based upon the number of Altria stock awards outstanding at Distribution, we granted stock options for approximately 24.1 million shares of Common Stock at a weighted-average price of $15.75. The options expire between 2007 and 2012. In addition, we issued approximately 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 stock and stock rights lapse in either the first quarter of 2008 or 2009.

In January 2007, we issued approximately 5.2 million shares of restricted stock and stock rights to eligible U.S. and non-U.S. employees. Restrictions on these shares and rights lapse in the first quarter of 2010. The market value per restricted share or right was $34.655 on the date of grant. The total number of restricted shares and rights issued in the first quarter of 2007 was 8.2 million, including those issued as a result of the Distribution.

Dividends:
We paid dividends of $820 million in the first six months of 2007 and $769 million in the first six months of 2006. The 7% increase reflects a higher dividend rate in 2007, partially offset by a lower number of shares outstanding because of share repurchases. The present annualized dividend rate is $1.00 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.

Contractual Obligations

Our Annual Report on Form 10-K for the year ended December 31, 2006, contains a table that summarizes our known obligations to make future payments. As of June 30, 2007, our total liability for income taxes payable, including uncertain tax positions and associated accrued interest, was approximately $1,029 million. We expect to pay $228 million in the next 12 months. We are not able to reasonably estimate the timing of future cash flows beyond 12 months due to uncertainties in the timing of tax audit outcomes.

Business Environment

We face challenges that could negatively affect our businesses, performance or financial condition. These challenges, discussed briefly below and in more detail under the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2006, include:

- the intense competition for our products and markets, including price gaps with competitor products, the increasing price-consciousness of consumers and the increasing use of private-label products;
- the continuing consolidation of our customers' businesses that create large sophisticated customers with increased buying power that are capable of operating with decreased inventories;
- the increasing costs of the raw materials we use to make our products;
- having international business operations that require us to comply with numerous international laws and regulations, subject us to fluctuations in international currencies and make our sales vulnerable to tariffs, quotas, trade barriers and other similar restrictions;
- our ability to meet changing consumer preferences and our continuing ability to introduce new and improved products; and
- increased regulations and concerns about food safety, quality and health, including genetically modified organisms, trans-fatty acids and obesity.

2007 Outlook:
Our expectations for fully diluted EPS have increased to $1.55 to $1.60, up from the previously announced range of $1.50 to $1.55. The change in guidance includes $0.02 per diluted share in lower costs related to our Restructuring Program and $0.03 per diluted share from the first quarter 2007 recognition of one-time interest income related tax reserve transfers from Altria.

Reflected in our earnings guidance, we now expect to deliver a higher level of savings under our Restructuring Program for the year, while spending less than anticipated. We now expect cumulative savings from the Restructuring Program will reach approximately $725 million by year-end, up from our previous estimate of $700 million. To date, cumulative savings from the Restructuring Program on an annualized basis totaled approximately $660 million, up from approximately $540 million at the end of 2006. Due to the timing of activities, we project spending of approximately $575 million in 2007, or $0.23 per fully diluted share, down from prior guidance of $625 million, or $0.25 per diluted shares. Our guidance for total costs and savings over the life of the Restructuring Program are unchanged.

Also reflected in our guidance, we now expect our 2007 full-year effective tax rate to average 33.5%, down from a previous expectation of 35.5%, due to the resolution of outstanding tax items as well as a change in the mix of earnings by country, which are partially offset by tax costs associated with the sale of our hot cereal assets and trademarks.

The factors described in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2006, represent continuing risks to these forecasts.

Significant Accounting Estimates

We prepare our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates and assumptions. Our significant accounting policies are described in Note 2 to our consolidated financial statements in our 2006 Annual Report on Form 10-K. Our significant accounting estimates are described in Management's Discussion and Analysis included in our 2006 Annual Report on Form 10-K. The impact of new accounting standards is discussed in the following section. There were no other changes in our accounting policies in the current period that had a material impact on our financial statements.

New Accounting Standards

See Notes 1 and 14 to the condensed consolidated financial statements for a discussion of new accounting standards.

Contingencies

See Note 8, *Contingencies*, and Part II – Other Information, Item 1. Legal Proceedings for a discussion of contingencies.

Forward-Looking Statements

This report contains forward-looking statements regarding our intent to acquire the Danone global biscuit business; with regard to our Restructuring Program, our pre-tax charges, our intent to close up to 40 facilities, the use of cash to pay approximately 60% of the charges and our intent to eliminate approximately 10,500 positions; expected annual lost tax benefits due to filing separately from Altria; full year capital expenditures and funding; our intent to use a bridge facility to finance the Danone biscuit business acquisition and our intent to repay borrowings under the facility from the proceeds of the issuance of investment grade bonds or other securities; our expectation to continue to meet financial covenants under our revolving credit facility; the effect of guarantees on our liquidity; our belief about our liquidity, and specifically our ability to meet our working capital needs; our 2007 Outlook, specifically diluted EPS, costs, savings and spending related to our Restructuring Program; and our 2007 effective tax rate.

These forward-looking statements involve risks and uncertainties, and the cautionary statements in the "Business Environment" section of this report preceding our 2007 Outlook, as well as those set forth below and those contained in the "Risk Factors" found in our Annual Report of Form 10-K for the year ended December 31, 2006, 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, unexpected safety or manufacturing issues, FDA or other regulatory actions or delays, competition, pricing, difficulty in obtaining materials from suppliers, the rising cost of raw materials we use in manufacturing our products, the ability to supply products and meet demand for our products, our ability to protect our intellectual and other proprietary rights, our ability to retain key employees, our ability to realize the expected cost savings from our planned Restructuring Program, unanticipated expenses such as litigation or legal settlement expenses, increased costs of sales, our indebtedness and ability to pay our indebtedness, the shift in product mix to lower margin offerings, our ability to differentiate our products from private label products, risks from operating internationally and changes in tax laws. We disclaim and do not undertake any obligation to update or revise any forward-looking statement in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Kraft operates globally, with manufacturing and sales facilities in various locations around the world. We use certain financial instruments to manage our commodity and foreign currency exposures, principally to reduce exposure to fluctuations in commodity prices and foreign exchange rates by creating offsetting exposures. Our derivative holdings fluctuate during the year based on normal and recurring changes in purchasing and production activity. We are not a party to leveraged derivatives and, by policy, do not use financial instruments for speculative purposes.

Other than the items disclosed Note 12, *Financial Instruments*, there have been no significant changes in our commodity or foreign currency exposures since December 31, 2006. Additionally, there have been no other changes in the types of derivative instruments used to hedge those exposures.

Item 4. Controls and Procedures.

a) Evaluation of Disclosure Controls and Procedures

Management, together with our Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

b) Changes in Internal Control Over Financial Reporting

Management, together with our Chief Executive Officer and Chief Financial Officer, determined that there were no changes in our internal control over financial reporting during the quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

We are defendants in a variety of legal proceedings. Plaintiffs in a few of those cases seek substantial damages. We cannot predict with certainty the results of these proceedings. However, we believe that the final outcome of these proceedings will not materially affect our financial results.

In October 2002, Mr. Mustapha Gaouar and five other family members (collectively ‘‘the Gaouars’’) filed suit in the Commercial Court of Casablanca against Kraft Foods Maroc and Mr. Omar Berrada claiming damages of approximately $31 million arising from a non-compete undertaking signed by Mr. Gaouar allegedly under duress. The non-compete clause was contained in an agreement concluded in 1986 between Mr. Gaouar and Mr. Berrada acting for himself and for his group of companies, including Les Cafes Ennasr (renamed Kraft Foods Maroc), which Kraft Foods International, Inc. acquired from Mr. Berrada in 2001. In June 2003, the court issued a preliminary judgment against Kraft Foods Maroc and Mr. Berrada holding that the Gaouars are entitled to damages for being deprived of the possibility of engaging in coffee roasting from 1986 due to such non-compete undertaking. At that time, the court appointed two experts to assess the amount of damages to be awarded. In December 2003, these experts delivered a report concluding that they could see no evidence of loss suffered by the Gaouars. The Gaouars asked the court that this report be set aside and new court experts be appointed. On April 15, 2004, the court delivered a judgment upholding the defenses of Kraft Foods Maroc and rejecting the claims of the Gaouars. The Gaouars appealed this judgment, and in July 2005, the Court of Appeal gave judgment in favor of Kraft Foods Maroc confirming the decision rendered by the Commercial Court. On November 29, 2005, the Gaouars filed their further appeal to the Moroccan Supreme Court. The Moroccan Supreme Court hearing took place on February 21, 2007. The case was transferred to the judges of both chambers of the Moroccan Supreme Court. No date has been set for rendering a judgment. As a result, in the event that we are ultimately found liable on appeal for damages to plaintiff in this case, we believe that we may have claims against Mr. Berrada for recovery of all or a portion of the amount.

Item 1A. Risk Factors.

There were no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006, in response to Item 1A to Part I of such report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Our share repurchase program activity for each of the three months ended June 30, 2007 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (a)
April 1-April 30, 2007	31,394,840	$ 32.07	31,394,840	$ 3,993,254,728
May 1-May 31, 2007	16,859,200	$ 33.25	48,254,040	$ 3,432,708,630
June 1-June 30, 2007	12,420,900	$ 34.84	60,674,940	$ 3,000,000,826
Pursuant to Publicly Announced Plans or Programs	60,674,940			
April 1-April 30, 2007 (c)	1,107	$ 33.34		
May 1-May 31, 2007 (c)	6,209	$ 32.73		
June 1-June 30, 2007 (c)	23,612	$ 34.12		
For the Quarter Ended June 30, 2007	60,705,868	$ 32.96		

(a) In February 2007, we announced a two-year $5.0 billion Common Stock repurchase program. The new program became effective upon Distribution. We are not obligated to acquire any amount of our Common Stock and may suspend the program at our discretion.

(b) Aggregate number of shares repurchased under the share repurchase program as of the end of the period presented.

(c) Shares tendered to us by employees who vested in restricted stock and rights, and used shares to pay the related taxes.

Item 6. Exhibits.

10.1	Form of Kraft Foods Inc. Change in Control Plan for Key Executives dated April 24, 2007.
10.2	Kraft Foods Inc. 2005 Performance Incentive Plan, as amended April 24, 2007.
12	Statement regarding computation of ratios of earnings to fixed charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certifications of 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.

Signature

Pursuant to the requirements 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.

/s/ JAMES P. DOLLIVE

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

August 3, 2007

EXHIBIT 10.1

Kraft Foods Inc.

Change in Control Plan for Key Executives

Adopted: April 24, 2007

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 Target	The annual incentive award that the Key Executive would receive in a fiscal year under the Management Incentive Plan or any comparable annual incentive plan if the target goals are achieved.
Annual Incentive Target Percentage	The Annual Incentive Target as a percentage of Annual Base Salary.
Cause	As defined in Section 3.2(b) (i) of this Plan.
Change in Control	“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: (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. (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; (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

(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 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 Company for Cause or by the Participant for Good Reason the Date of Termination shall be the date on which the Participant or the Company, 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 Company other than for Cause, death or Disability, the Date of Termination shall be the date on which the Company 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.

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.
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 cash award that the Participant would receive during a performance cycle under the Long-Term Incentive Plan or any comparable annual incentive plan if the target goals specified under the Long-Term Incentive Plan or such annual incentive plan are achieved.
Long-Term Incentive Plan Target Percentage	The Long-Term Incentive Plan Target as a percentage of Annual Base Salary.
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 date of the Participant's termination of employment with the Company, for a company that is substantially competitive with a business conducted by the Company.
Non-Solicitation Agreement	The agreement of a Participant that he or she will not solicit, directly or indirectly, any employee of the Company, or a surviving entity following a Change-in-Control, to leave the Company 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 of employment with the Company.
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 ceases to be employed by 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 Company 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.

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 reduction in the Participant's base salary, annual incentive or long-term incentive opportunity as in effect immediately prior to the Change in Control, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company and/or the Employer promptly after receipt of notice thereof given by the Participant;

(iii) the Company's or the Affiliate's requiring the Participant to be based at any office or location other than any other location which does not extend the Participant's current home to work location commute by more than 50 miles;

(iv) the Company's or the Affiliate's requiring the Participant to travel on business to a substantially greater extent than required immediately prior to the Change in Control;

(v) any alleged termination by the Company or the Affiliate of the Participant's employment otherwise than as expressly permitted by this Plan; or

(vi) 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 Article 5.

(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 where the violation results in significant damage to the Company; or

c. Engaging in other conduct which adversely reflects on the Company in any material respect.

(ii) A "Termination for 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 by the Company 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) if the Date of Termination is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Participant or the Company 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 Company, respectively, hereunder or preclude the Participant or the Company, respectively, from asserting such fact or circumstance in enforcing the Participant's or the Company's rights hereunder.

3.3. <u>Separation Benefits.</u> 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 Company 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 Target Annual Incentive Award 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 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), (the “Accrued Obligations”).

(b) The Company 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 Target Annual Incentive Award, 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.

(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 Company 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. 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.

(d) The Company 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 separates from service.

(e) The Company 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 at the immediately prior to the Change in Control. 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.

(f) To the extent not theretofore paid or provided, the Employer shall timely pay or provide to the Participant 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 date on which the Participant separates from service 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 on which the Participant separates from service, 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.

3.4. <u>Certain Additional Payments by the Company.</u>

(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 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 (taking into account both income taxes and any Excise Tax) 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, in the aggregate, shall be reduced to the Reduced Amount.

(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 and the assumptions to be utilized in arriving at such determination, 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, shall be paid by the Company 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 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 Company should have been made ("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 Company to or for the benefit of the Participant.

(c) 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 Company 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 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 in good faith in order to effectively contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

PROVIDED, HOWEVER, that (A) the Company 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; and (B) if the Company directs the Participant to pay such claim and sue for a refund, the Company 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.

(d) If, after the receipt by the Participant of an amount advanced by the Company pursuant to Section 3.4(c), the Participant becomes entitled to receive any refund with respect to such claim, the Participant shall (subject to the Company's complying with the requirements of Section 3.4(c)) promptly pay to the Company 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 Company 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 Company 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, 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, 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, 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 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, 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 release 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 the Participant 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 would be obligated under this Plan if no succession had taken place.

In the case of any transaction in which a successor would not 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 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 Company 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. 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. 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. 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.

6.7. 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 Company 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 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.

6.8. 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.

6.9. 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 Plan shall supersede, with respect to U.S. Participants, any and all plans, programs, policies and arrangements of the Company 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
EVP, Global Human Resources

EXHIBIT 10.2

KRAFT FOODS INC. 2005 PERFORMANCE INCENTIVE PLAN

(Amended April 24, 2007)

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) 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) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(f) "Commission" means the Securities and Exchange Commission or any successor agency.

(g) "Committee" means the 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.

(h) "Common Stock" or "Stock" means the Class A Common Stock of the Company.

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

(j) “Deferred Stock Unit” means an Award described in Section 5(a)(v).

(k) “Economic Value Added” means net after-tax operating profit less the cost of capital.

(l) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

(m) “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.

(n) “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.;

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 reduction in the Participant’s base salary, annual incentive or long-term incentive opportunity as in effect immediately prior to the Change in Control, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Participant;

(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 current home to work location commute 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;

(v) any alleged termination by the Company, its subsidiaries or affiliates of the Participant’s employment otherwise than as expressly permitted by this Plan; or

(vi) 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 Article 5.

(o) “Incentive Award” means any Award that is either an Annual Incentive Award or a Long-Term Incentive Award.

(p) “Incentive Stock Option” means any Stock Option that complies with Section 422 (or any amended or successor provision) of the Code.

(q) “Long-Term Incentive Award” means an Incentive Award made pursuant to Section 5(a)(vi) with a Performance Cycle of more than one year.

(r) “Nonqualified Stock Option” means any Stock Option that is not an Incentive Stock Option.

(s) “Other Stock-Based Award” means an Award made pursuant to Section 5(a)(iii).

(t) “Participant” means any eligible individual as set forth in Section 3 to whom an Award is granted.

(u) “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.

(v) “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: earnings per share, total stockholder return, return on equity, return on capital, net income, adjusted net income, cash flow, operating income or Economic Value Added.

(w) “Plan” means this Kraft Foods Inc. 2005 Performance Incentive Plan, as amended from time to time.

(x) “Prior Plan” means the Kraft Foods Inc. 2001 Performance Incentive Plan.

(y) “Restricted Period” means the period during which an Award may not be sold, assigned, transferred, pledged or otherwise encumbered.

(z) “Restricted Stock” means an Award of shares of Common Stock pursuant to Section 5(a)(iv).

(aa) “Restricted Stock Unit” means an Award described in Section 5(a)(v).

(bb) “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.

(cc) “Stock Appreciation Right” or “SAR” means a right granted pursuant to Section 5(a)(ii).

(dd) “Stock Option” means an Incentive Stock Option or a Nonqualified Stock Option granted pursuant to Section 5(a)(i).

In addition, the terms “Affiliated Group,” “Business Combination,” “Change in Control,” “Change in Control Price,” “Incumbent Board,” “Outstanding Company Stock,” “Outstanding Company Voting Securities” and “Person” have the meanings set forth in Section 6.

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, a subsidiary or an affiliate 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; provided that employees of Altria Group, Inc. and its subsidiaries other than the Company and the Company's subsidiaries are not eligible to be granted Awards under the Plan (except that employees and former employees of Altria Group, Inc. and its subsidiaries shall be eligible to be granted Awards under the Plan in connection with any event as a result of which the Company ceases to be a subsidiary of Altria Group, Inc.).

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 150,000,000 shares. An amount not to exceed 45,000,000 shares of Common Stock may be issued pursuant to Restricted Stock 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. 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 an SAR or similar Award based on Spread Value with respect to shares of Common Stock is exercised, only the number of shares of Common Stock issued, if any, will be deemed delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. 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 shall be available for distribution in connection with Awards under the Plan. If an 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 or any event as a result of which the Company ceases to be a subsidiary of Altria Group, Inc., in any case after adoption of the Plan by the Board, the Committee is authorized to 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) In connection with any of the events described in 4(b)(i), the Committee shall also have authority with respect to the Plan and the Prior Plan and to Awards granted thereunder (A) to grant Awards (including Stock Options, Stock Appreciation Rights, 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 (B) 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. In connection with a spin-off or similar corporate transaction, the adjustments described in this Section 4(b) may include, but are not limited to, (C) the imposition of restrictions on any distribution with respect to Restricted Stock or similar Awards and (D) the substitution of comparable Stock Options to purchase the stock of another entity or Stock Appreciation Rights, 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 (except for purposes of Section 6(b) hereunder and for any similar provisions of the Prior Plan or applicable Award agreements) 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.

(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.

(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 Stock Appreciation Right, 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. An SAR represents the right to receive a payment, in cash, 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 an 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, an SAR shall be exercisable, in whole or in part, by giving written notice of exercise.

(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.

(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 Stock Appreciation Rights 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 Plan 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.

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 6(a)(vii)):

(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; such Awards shall be free of all restrictions and fully vested; and, with respect to Restricted Stock Units, shall be payable immediately in accordance with their terms or, if later, as of the earliest permissible date under Code Section 409A.

(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.

(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 prior to the Performance Cycle in which the Change in Control occurs that have been earned but not paid shall become immediately payable in cash. In addition, each Participant who has been awarded an Incentive Award 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.

(vii) Definition of Change in Control. "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:

(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);

(B) During any consecutive 24-month period, persons who constitute the Board at the beginning of the period cease to constitute at least 50% of the Board (unless the election of each new Board member was approved by a majority of directors who began the two-year period);

(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; or

(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.

(b) Change in Control Price. Unless the Committee determines otherwise, “Change in Control Price” means the value of the consideration paid to holders of shares of Common Stock for such Common Stock in connection with a Change in Control transaction (or, if no consideration is paid in connection with a Change in Control transaction, the Fair Market Value of a share of Common Stock immediately prior to a Change in Control), except that, in the case of Incentive Stock Options, such price shall be based only on transactions reported for the date on which such Incentive Stock Options are cashed out.

(c) Incumbent Board. “Incumbent Board” means the members of the Board as of the effective date of the Plan. Notwithstanding the preceding sentence, any individual who becomes a member of the Board after such effective date whose election, or nomination for election by the shareholders of the Company, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such member were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

Section 7. Plan Amendment and Termination.

The Board may amend or terminate the Plan at any time, provided that no such amendment shall be made without shareholder approval if such approval is required under applicable law, regulation, or stock exchange rule, or if such amendment would (i) decrease the grant or exercise price of any Stock Option, SAR or Other Stock-Based Award to less than the Fair Market Value on the date of grant, or (ii) increase the total number of shares of Common Stock that may be distributed under the Plan. Except as may be necessary to comply with a change in the laws, regulations or accounting principles of a foreign country applicable to Participants subject to the laws of such foreign country, the Committee may not cancel any Stock Option and substitute therefore a new Stock Option with a lower grant price. 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 Plan Participants, no amendment or termination of the Plan may materially and adversely affect any outstanding Award under the Plan without the Award recipient’s consent.

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. 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.

Section 9. Dividends and Dividend Equivalents.

The Committee may provide that any Awards under the Plan earn dividends or dividend equivalents. Such dividends or dividend equivalents may be paid currently 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.

Section 11. Award Agreements.

Each Award under the Plan shall be evidenced by a written agreement (which need not be signed by the recipient unless otherwise specified by the Committee) that 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. 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 Plan 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, a subsidiary or an affiliate from adopting other or additional compensation arrangements for their respective employees.

(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, a subsidiary or an affiliate 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. 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.

(g) 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.

(h) If approved by stockholders, the Plan shall be effective on May 1, 2005. Except as otherwise provided by the Board, no Awards shall be made after May 1, 2010, provided that any Awards granted prior to that date may extend beyond it.

EXHIBIT 12

KRAFT FOODS INC. AND SUBSIDIARIES
Computation of Ratios of Earnings to Fixed Charges
(in millions of dollars)

	For the Three Months Ended June 30, 2007	For the Six Months Ended June 30, 2007
Earnings before income taxes	$ 1,039	$ 2,097
Add (Deduct):		
Equity in net earnings of less than 50% owned affiliates	(19)	(34)
Dividends from less than 50% owned affiliates	–	51
Fixed charges	195	377
Interest capitalized, net of amortization	(2)	(4)
Earnings available for fixed charges	$ 1,213	$ 2,487
Fixed charges:		
Interest incurred:		
Interest expense	$ 155	$ 298
Capitalized interest	2	5
	157	303
Portion of rent expense deemed to represent interest factor	38	74
Fixed charges	$ 195	$ 377
Ratio of earnings to fixed charges	6.2	6.6

EXHIBIT 31.1

Certifications

I, Irene B. Rosenfeld, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 3, 2007

/s/ IRENE B. ROSENFELD

Irene B. Rosenfeld
Chairman and Chief Executive Officer

EXHIBIT 31.2

Certifications

I, James P. Dollive, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 3, 2007

/s/ JAMES P. DOLLIVE

James P. Dollive
Executive Vice President and
Chief Financial Officer

EXHIBIT 32.1

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, Chief Executive Officer of Kraft Foods Inc., ("Kraft") certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that Kraft's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, 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's Quarterly Report on Form 10-Q fairly presents in all material respects Kraft's financial condition and results of operations.

/s/ IRENE B. ROSENFELD
Irene B. Rosenfeld
Chairman and Chief Executive Officer
August 3, 2007

I, James P. Dollive, Chief Financial Officer of Kraft Foods Inc., ("Kraft") certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that Kraft's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, 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's Quarterly Report on Form 10-Q fairly presents in all material respects Kraft's financial condition and results of operations.

/s/ JAMES P. DOLLIVE
James P. Dollive
Executive Vice President and
Chief Financial Officer
August 3, 2007

A signed original of this written statement 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.