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

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

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

COMMISSION FILE NUMBER 1-16483

Kraft Foods Inc.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: 847-646-2000

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

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

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the shares of Class A Common Stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on June 30, 2008, was $43 billion. At January 30, 2009, there were 1,469,388,330 shares of the registrant's Class A Common Stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for use in connection with its annual meeting of shareholders to be held on May 20, 2009, to be filed with the Securities and Exchange Commission (the "SEC") in March 2009, are incorporated in Part III hereof and made a part hereof.

Kraft Foods Inc.
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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

Item 1. Business.

General

Kraft was incorporated in 2000 in the Commonwealth of Virginia. We manufacture and market packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products. We have operations in more than 70 countries and sell our products in approximately 150 countries. We have nine brands with revenues exceeding $1 billion: *Kraft* cheeses, dinners and dressings; *Oscar Mayer* meats; *Philadelphia* cream cheese; *Maxwell House* and *Jacobs* coffee; *Nabisco* cookies and crackers and its *Oreo* cookie brand; *Milka* chocolates; and *LU* biscuits. We have more than 50 brands with revenues of at least $100 million.

Prior to June 13, 2001, Kraft was a wholly owned subsidiary of Altria Group, Inc. (“Altria”). On June 13, 2001, we completed an initial public offering of 280,000,000 shares of our Common Stock at a price of $31.00 per share. In the first quarter of 2007, Altria spun off its remaining 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.

Because Kraft Foods Inc. is a holding company, our principal source of funds is from our subsidiaries. Our wholly owned subsidiaries currently are not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their common stock.

Reportable Segments

We manage and report operating results through two commercial units, Kraft North America and Kraft International. Kraft North America operates in the U.S. and Canada, and we manage Kraft North America’s operations by product category. We manage Kraft International’s operations by geographic location.

Effective August 4, 2008, we completed the split-off of the *Post* cereals business. The results of the *Post* cereals business were reflected as discontinued operations on the consolidated statement of earnings and prior period results were restated in a consistent manner.

In 2008, we implemented a new operating structure. Within the new structure, business units now have full P&L accountability and are staffed accordingly. This also ensures that we are putting our resources closer to where we make decisions that affect our consumers and customers. Our corporate and shared service functions continue to streamline their organizations and focus on core activities that can more efficiently support the goals of the business units. As a result of implementing the new operating structure, we began reporting the results of operations under this new structure in the first quarter of 2008 and restated results from prior periods in a consistent manner. The changes were:

- U.S. Cheese was organized as a standalone operating segment in order to create a more self-contained and integrated business unit in support of faster growth.
- Our macaroni and cheese category, as well as other dinner products, were moved from our U.S. Convenient Meals segment to our U.S. Grocery segment to take advantage of operating synergies.
- Canada and North America Foodservice were structured as a standalone reportable segment. This change allows us to deliver on the unique requirements of the Canadian consumer and customer while maintaining strong North American linkages to innovation, new product development and new capabilities to drive our business. Furthermore, it allows us to manage strategic customer decisions and continue to capture cross-border sales and marketing synergies within our Foodservice operations.

Note 17, *Segment Reporting*, to our consolidated financial statements includes a breakout of net revenues, segment operating income, total assets, depreciation expense and capital expenditures by reportable segment, as well as a breakout of net revenues, long-lived assets and total assets by geographic region. Management uses segment operating income to evaluate segment performance and allocate resources. Management believes it is appropriate to disclose this measure to help investors analyze segment performance and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which is a component of cost of sales), general corporate expenses and amortization of intangibles.

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

	For the Years Ended December 31,		
	2008	2007	2006
	(2007 & 2006 restated)		
Kraft North America:			
U.S. Beverages	8.5%	7.6%	4.7%
U.S. Cheese	14.3%	9.6%	15.2%
U.S. Convenient Meals	9.1%	9.3%	9.5%
U.S. Grocery	23.0%	24.3%	28.8%
U.S. Snacks (1)	12.2%	14.5%	10.2%
Canada & N.A. Foodservice	10.0%	9.7%	9.8%
Kraft International:			
European Union	9.5%	13.6%	12.6%
Developing Markets	13.4%	11.4%	9.2%
Total Kraft Segment Operating Income	100.0%	100.0%	100.0%

(1) This segment was formerly known as U.S. Snacks & Cereals.

Our brands span five consumer sectors:

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

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

	Percentage of 2008 Net Revenues by Consumer Sector(1)					
Segment	Snacks	Beverages	Cheese	Grocery	Convenient Meals	Total
Kraft North America:						
U.S. Beverages	–	35.4%	–	–	–	7.1%
U.S. Cheese	–	–	53.7%	–	–	9.5%
U.S. Convenient Meals	–	–	–	–	68.8%	10.1%
U.S. Grocery	0.8%	–	–	54.1%	16.3%	8.0%
U.S. Snacks	30.4%	–	0.9%	2.9%	–	11.9%
Canada & N.A. Foodservice	6.2%	6.0%	19.4%	20.0%	8.2%	10.2%
Total Kraft North America	37.4%	41.4%	74.0%	77.0%	93.3%	56.8%
Kraft International:						
European Union	38.9%	38.3%	14.9%	9.4%	5.0%	26.6%
Developing Markets	23.7%	20.3%	11.1%	13.6%	1.7%	16.6%
Total Kraft International	62.6%	58.6%	26.0%	23.0%	6.7%	43.2%
Total Kraft	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Consumer Sector Percentage of Total Kraft	37.7%	20.1%	17.7%	9.9%	14.6%	100.0%

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

Our U.S. subsidiaries export coffee products, refreshment beverage products, grocery products, cheese, biscuits and processed meats. In 2008, these exports from the U.S. amounted to $195 million.

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

	2008	2007	2006
		(2007 & 2006 restated)	
Biscuits (cookies and crackers)	22%	15%	15%
Cheese	18%	19%	19%
Coffee	14%	15%	14%
Confectionery	12%	12%	11%

Our major brands within each reportable segment and consumer sector are:

Kraft North America:
U.S. Beverages

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

U.S. Cheese

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

U.S. Convenient Meals

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

U.S. Grocery

Grocery:	*Jell-O* dry packaged desserts; *Cool Whip* whipped topping; *Jell-O* refrigerated gelatin and pudding snacks; *Jet-Puffed* marshmallows; *Kraft* and *Miracle Whip* spoonable dressings; *Kraft* and *Good Seasons* salad dressings; *A.1.*steak sauce; *Kraft* and *Bull's-Eye* barbecue sauces; *Grey Poupon* premium mustards; and *Shake N' Bake* coatings.
Convenient Meals:	*Kraft* macaroni and cheese dinners; *Stove Top* stuffing mix; *Taco Bell Home Originals* (under license) meal kits; and *Back to Nature* macaroni and cheese dinners.

U.S. Snacks

Snacks:	*Oreo*, *Chips Ahoy!*, *Newtons*, *Nilla*, *Nutter Butter* and *SnackWell's* cookies; *Ritz, Premium*, *Triscuit*, *Wheat Thins*, *Cheese Nips*, *Honey Maid Grahams*, *Teddy Grahams* and *Kraft* macaroni and cheese crackers; *Nabisco* 100 Calorie Packs; *South Beach Living* (under license) crackers, cookies and snack bars; *Planters* nuts and trail mixes; *Handi-Snacks* two-compartment snacks; *Back to Nature* granola, cookies, crackers, nuts and fruit & nut mixes; and *Balance* nutrition and energy bars.
Grocery:	*Back to Nature* ready-to-eat cereals.

Canada & N.A. Foodservice	Canada and foodservice products span all Kraft North America segments and sectors.

Kraft International:
European Union

Snacks:	*Milka, Suchard, Côte d'Or, Marabou, Toblerone, Freia, Terry's, Daim / Dime, Figaro, Karuna, Lacta, Pavlides, Twist, Merenda, Prince Polo / Siesta, Mirabell, Pyros Mogyoros, Alpen Gold, Sport / Smash / Jazz* and *3-Bit* chocolate confectionery products; and *Oreo, Dorada, Digestive, Chiquilin, TUC, Mini-Star, Mikado, Ourson, Petit Déjeuner, Cracotte, Belin, Heudebert, Grany, Petit Écolier, Saiwa, Oro, Fonzies, Start, Prince, Pépito Opavia, Belvita* and *Gyori* biscuits.

Beverages:	*Jacobs, Gevalia, Carte Noire, Jacques Vabre, Kaffee HAG, Grand' Mère, Kenco, Saimaza, Meisterroestung, Maxwell House, Onko, Splendid, Starbucks* (under license) and *Karat* coffees; *Tassimo* hot beverage system; *Tang* powdered beverages; and *Suchard Express*, *O'Boy* and *Kaba* chocolate drinks.
Cheese:	*Kraft, Dairylea, Sottilette, Osella* and *El Caserío* cheeses; and *Philadelphia* cream cheese.
Grocery:	*Kraft* pourable and spoonable salad dressings; *Miracel Whip* spoonable dressings; and *Miracoli* sauces.
Convenient Meals:	*Lunchables* lunch combinations; *Kraft* and *Miracoli* pasta dinners and sauces; and *Simmenthal* canned meats.
Developing Markets	
Snacks:	*Oreo, Chips Ahoy!, Ritz, Club Social, Express, Kraker / Honey / Aveny Bran, Marbu, Dorada, Variedad, Pacific, Belvita, Cerealitas, Lucky, Trakinas, TUC, Mikado, Ourson, Petit Déjeuner, Cracotte, Bolshevik, Prichuda, Jubilee, Major, Merendina, Jacob's, Chipsmore, Twisties, Biskuat / Tiger, Milk Biscuit, Hi Calcium Soda* and *PIM's* biscuits; *Milka, Toblerone, Lacta, Côte d'Or, Shot, Terrabusi, Suchard, Alpen Gold, Karuna, Korona, Poiana, Svoge, Ukraina, Vozdushny, Chudny Vecher, Terry's* and *Gallito* chocolate confectionery products; and *Estrella, Kar, Lux* and *Planters* nuts and salted snacks.
Beverages:	*Maxwell House, Maxim, Carte Noire, Nova Brasilia* and *Jacobs* coffee; *Tang, Clight, Kool-Aid, Verao, Frisco, Q-Refresh-Ko, Royal* and *Fresh* powdered beverages; and *Capri Sun* (under license) packaged juice drinks.
Cheese:	*Kraft, Velveeta* and *Eden* process cheeses; *Kraft* and *Philadelphia* cream cheese; *Kraft* natural cheese; and *Cheez Whiz* process cheese spread.
Grocery:	*Royal* dry packaged desserts; *Kraft* spoonable and pourable salad dressings; *Miracle Whip* spoonable dressings; *Jell-O* dessert toppings; *Kraft* peanut butter; and *Vegemite* yeast spread.
Convenient Meals:	*Kraft* macaroni and cheese dinners.

Effective January 2009, we began implementing changes built on our Kraft Europe Reorganization and our *Organizing For Growth* initiative. In line with our strategies, we are evolving how we work in Europe in two key ways:

- We are transitioning our European Biscuit, Chocolate, Coffee and Cheese categories to fully integrated business units, further strengthening our focus on these core categories. To ensure decisions are made faster and closer to customers and consumers, each category will be fully accountable for the P&L, including marketing, manufacturing and R&D. Category leadership, based in Zurich, will report to the Kraft Europe President, and the country organizations will be aligned with the category structure under our Kraft Europe Reorganization and report directly to category management. Going forward, these business units will comprise the Kraft Foods Europe segment.
- We are aligning the reporting of our Central Europe operations into our Kraft Foods Developing Markets segment to help build critical scale in these countries. We intend to operate a country-led model in these markets and, as a result, we have no plans to implement the Kraft Europe Reorganization in Central Europe. This change also will keep Kraft Foods Europe management fully focused on implementing their new structure and growing the business.

As a result of implementing this new operating structure, we will report the results of operations under this new structure beginning in the first quarter of 2009 and will restate results from prior periods in a consistent manner.

Significant Acquisitions and Divestitures

LU Biscuit Acquisition:
On November 30, 2007, we acquired the global *LU* biscuit business of Groupe Danone S.A. ("*LU* Biscuit") for €5.1 billion (approximately $7.6 billion) in cash. The acquisition included 32 manufacturing facilities and approximately 14,000 employees. We acquired net assets consisting primarily of goodwill of $4,052 million (which will not be deductible for statutory tax purposes), intangible assets of $3,546 million (substantially all of which are indefinite-lived), receivables of $757 million, property, plant and equipment of $1,054 million and inventories of $204 million, and assumed liabilities of $1,063 million consisting primarily of accounts payable and accruals. These purchase price allocations were based upon appraisals that were

finalized in the third quarter of 2008. *LU* Biscuit contributed net revenues of $3.2 billion during 2008, and $2.8 billion on a proforma basis during 2007. *LU* Biscuit reported results from operations on a one month lag in 2007; as such, there was no impact on our operating results. On a proforma basis, *LU* Biscuit's net earnings for the year ended December 31, 2007 would have been insignificant to Kraft.

Post Cereals Split-off:
On August 4, 2008, we completed the split-off of the *Post* cereals business into Ralcorp Holdings, Inc. ("Ralcorp"), after an exchange with our shareholders. The exchange is expected to be tax-free to participating shareholders for U.S. federal income tax purposes.

In this split-off transaction, approximately 46.1 million shares of Kraft Common Stock were tendered for $1,644 million. Our shareholders had the option to exchange some or all of their shares of Kraft Common Stock and receive shares of common stock of Cable Holdco, Inc. ("Cable Holdco"). Cable Holdco was our wholly owned subsidiary that owned certain assets and liabilities of the *Post* cereals business. In exchange for the contribution of the *Post* cereals business, Cable Holdco issued approximately $665 million in debt securities, issued shares of its common stock and assumed a $300 million credit facility. Following the merger of Cable Holdco and a Ralcorp subsidiary, the Cable Holdco common stock was exchanged for shares of Ralcorp common stock on a one-for-one basis. Upon closing, we used the cash equivalent net proceeds, approximately $960 million, to repay debt. As a result of the split-off, we recorded a gain on discontinued operations of $937 million, or $0.62 per diluted share, in 2008. The results of the *Post* cereals business were reflected as discontinued operations on the consolidated statement of earnings and prior period results were restated in a consistent manner.

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

Customers

Our five largest customers accounted for approximately 27% of our net revenues in 2008, 29% in 2007 and 28% in 2006. Our ten largest customers accounted for approximately 36% of our net revenues in 2008, 40% in 2007 and 38% in 2006. One of our customers, Wal-Mart Stores, Inc., accounted for approximately 16% of our net revenues in 2008, 15% in 2007 and 14% in 2006.

Seasonality

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

Competition

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

Distribution

Our products are generally sold to supermarket chains, wholesalers, supercenters, club stores, mass merchandisers, distributors, convenience stores, gasoline stations, drug stores, value stores and other retail food outlets. In general, the retail trade for food products is consolidating. Food products are distributed through distribution centers, satellite warehouses, company-operated and public cold-storage facilities, depots and other facilities. We currently distribute most products in North America through a combination of direct-store-delivery and warehouse delivery. Kraft International's products are distributed through warehouse delivery and through the services of independent sales offices and agents. We support our selling efforts through three principal sets of activities: consumer advertising in broadcast, print, outdoor and on-line media; consumer incentives such as coupons and contests; and trade promotions to support price features, displays and other merchandising of our products by our customers.

Raw Materials

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

We purchase our dairy raw material requirements, including milk and cheese, from independent third parties such as agricultural cooperatives and independent processors. The prices for milk and other dairy product purchases are substantially influenced by market supply and demand, as well as by government programs. Dairy commodity costs on average were higher in 2008 than in 2007. Significant cost items in our biscuit and grocery products are grains (wheat, corn and soybean oil). Grain costs have experienced significant increases as a result of burgeoning global demand for food, livestock feed and biofuels such as ethanol and biodiesel. Grain costs on average were higher in 2008 than in 2007. The most significant cost item in coffee products is green coffee beans, which are purchased on world markets. Green coffee bean prices are affected by the quality and availability of supply, changes in the value of the U.S. dollar in relation to certain other currencies and consumer demand for coffee products. Green coffee bean costs on average were higher in 2008 than in 2007. A significant cost item in chocolate confectionery products is cocoa, which is purchased on world markets, and the price of which is affected by the quality and availability of supply and changes in the value of the British pound and the U.S. dollar relative to certain other currencies. Cocoa bean and cocoa butter costs on average were higher in 2008 than in 2007.

During 2008, our aggregate commodity costs rose significantly as a result of higher dairy, coffee, cocoa, wheat, nuts, meat products, soybean oil and packaging costs. For 2008, our commodity costs were approximately $1.8 billion higher than 2007, following an increase of approximately $1.3 billion for 2007 compared with 2006. Overall, we expect commodity costs to moderately increase in 2009.

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

Intellectual Property

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

- *Starbucks* coffee, *Seattle's Best* coffee and *Tazo* teas for sale in U.S. grocery stores and other distribution channels;
- *Starbucks* and *Seattle's Best* coffee T-Discs and *Tazo* teas T-Discs for use in our *Tassimo* hot beverage system;
- *Capri Sun* packaged juice drinks for sale in the U.S., Canada and within our Developing Markets segment;
- *Taco Bell Home Originals* Mexican style food products for sale in U.S. grocery stores;
- *California Pizza Kitchen* frozen pizzas for sale in grocery stores in the U.S. and Canada; and
- *South Beach Living* pizzas, meals, breakfast wraps, lunch wrap kits, crackers, cookies, snack bars, cereals and dressings for sale in grocery stores in the U.S.

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

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

Research and Development

We pursue four objectives in research and development: product safety and quality; growth through new products; superior consumer satisfaction; and reduced costs. We have approximately 2,400 food scientists, chemists and engineers working primarily in six key technology centers: East Hanover, New Jersey; Glenview, Illinois; Tarrytown, New York; Banbury, United Kingdom; Paris, France; and Munich, Germany. These technology centers are equipped with pilot plants and state-of-the-art instruments. Research and development expense was $499 million in 2008, $442 million in 2007 and $414 million in 2006.

Regulation

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

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

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

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

Environmental Regulation

We are subject to various federal, state, local and foreign laws and regulations relating to the protection of the environment. We accrue for environmental remediation obligations on an undiscounted basis when amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change. Recoveries of environmental remediation costs from third parties are recorded as assets when their receipt is deemed probable. In the U.S., the laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and Superfund, which imposes joint and severable liability on each responsible party. As of December 31, 2008, our subsidiaries were involved in 67 active Superfund and other similar actions in the U.S. related to current operations and certain former or divested operations for which we retain liability.

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

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

Employees

At December 31, 2008, we employed approximately 98,000 people worldwide. Labor unions represent approximately 43% of our 39,000 U.S. employees. Most of the unionized workers at our domestic locations are represented under contracts with the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union; the United Food and Commercial Workers

International Union; and the International Brotherhood of Teamsters. These contracts expire at various times throughout the next several years. Outside the U.S., labor unions or workers' councils represent approximately 72% of our 59,000 employees. Our business units are subject to various laws and regulations relating to their relationships with their employees. These laws and regulations are specific to the location of each enterprise. In addition, in accordance with EU requirements, we have established a European Works Council composed of management and elected members of our workforce. We believe that our relationships with employees and their representative organizations are good.

In 2008, we completed our five-year restructuring program (the "Restructuring Program"). In connection with our severance initiatives, as of December 31, 2008, we had eliminated approximately 15,200 positions, and we had announced our intent to eliminate an additional 3,800 positions.

Executive Officers of the Registrant

The following were our executive officers on February 27, 2009:

Name	Age	Title
Irene B. Rosenfeld	55	Chairman and Chief Executive Officer
David A. Brearton	48	Executive Vice President, Operations and Business Services
Michael A. Clarke	44	Executive Vice President and President, Kraft Europe
Marc S. Firestone	49	Executive Vice President, Corporate and Legal Affairs and General Counsel
Sanjay Khosla	57	Executive Vice President and President, Kraft International
Karen J. May	50	Executive Vice President, Global Human Resources
Timothy R. McLevish	53	Executive Vice President and Chief Financial Officer
Michael Osanloo	42	Executive Vice President, Strategy
Richard G. Searer	55	Executive Vice President and President, Kraft North America
Jean E. Spence	51	Executive Vice President, Research, Development and Quality
Mary Beth West	46	Executive Vice President and Chief Marketing Officer

Ms. Rosenfeld was appointed as Chief Executive Officer of Kraft in June 2006 and assumed the additional role of Chairman in March 2007. Prior to that, she had been Chairman and Chief Executive Officer of Frito-Lay, a division of PepsiCo, a food and beverage company. Ms. Rosenfeld had been employed continuously by Kraft in various capacities from 1981 until 2003. Ms. Rosenfeld is also a member of the Cornell University Board of Trustees.

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

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

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

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

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

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

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

Mr. Searer was appointed as Executive Vice President and President, Kraft North America in September 2006. Previously, Mr. Searer served as the Group Vice President and President, North America Convenient Meals Sector. Mr. Searer joined Kraft in 1981. Mr. Searer also serves on the Board of Directors of Bush Brothers & Company.

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

Ms. West was appointed as Executive Vice President and Chief Marketing Officer in October 2007. Previously, she served as a Group Vice President for Kraft and President of the North America Beverages Sector. Ms. West joined Kraft in 1986. Ms. West also serves on the Board of Directors of J.C. Penney Co., Inc. and is a member of the Executive Leadership Council.

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

In addition, we adopted Corporate Governance Guidelines, charters for each of the Board's five standing committees and the Code of Business Conduct and Ethics for Directors. All of these materials are available on our website at www.kraftfoodscompany.com and will be provided free of charge to any shareholder requesting a copy by writing to: Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, IL 60093. Certain of these materials may also be found in the proxy statement relating to our 2009 Annual Meeting of Shareholders.

Available Information

Our Internet address is www.kraftfoodscompany.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge as soon as possible after we electronically file them with, or furnish them to, the SEC. You can access our filings with the SEC by visiting www.kraftfoodscompany.com. The information on our website is not, and shall not be deemed to be, a part of this Annual Report on Form 10-K or incorporated into any other filings we make with the SEC.

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

Item 1A. Risk Factors.

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

We operate in a highly competitive industry, which may affect our profitability.
The food industry is intensely competitive. We compete based on price, product innovation, product quality, brand recognition and loyalty, effectiveness of marketing, promotional activity and the ability to identify and satisfy consumer preferences. From time to time, we may need to reduce our prices in response to competitive and customer pressures and to maintain our market share. Competition and customer pressures, however, also may restrict our ability to increase prices in response to commodity and other input cost increases. Our results of operations will suffer if profit margins decrease, as a result of either a reduction in prices or increased input costs, and if we are unable to increase sales volumes to offset those profit margin decreases.

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

Our brands may be challenged to compete against lower-priced private label products, particularly in times of economic downturns.
Retailers are increasingly offering private label products that compete with some of our products. Consumers' willingness to purchase our products will depend upon our ability to offer products that appeal to consumers at the right price. It is also important that our products provide higher value and / or quality to our customers than less expensive alternatives. If the difference in value or quality between our products and those of store brands narrows, or if such difference in quality is perceived to have narrowed, then consumers may not buy our products. Furthermore, during periods of economic uncertainty, such as we are currently experiencing, consumers tend to purchase more private label or other economy brands, which could reduce sales volumes of our higher margin products or there could be a shift in our product mix to our lower margin offerings. If we are not able to maintain or improve our brand image or value proposition, it could have a material effect on our market share and our profitability.

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

A few of our customers are material to our business and operations. Our largest customer, Wal-Mart Stores, Inc., accounted for approximately 16% of our net revenues during 2008. During 2008, our five largest customers accounted for approximately 27% of our net revenues. There can be no assurance that all significant customers will continue to purchase our products in the same quantities that they have in the past. The loss of any one of our significant customers or a material reduction in sales to a significant customer could have a material adverse effect on our sales and results of operations.

Increased price volatility for commodities we purchase may affect our profitability.
We are a major purchaser of commodities, including dairy, coffee, cocoa, wheat, corn products, soybean and vegetable oils, nuts, meat products, and sugar and other sweeteners. We also use significant quantities of plastic, glass and cardboard to package our products, and natural gas for our factories and warehouses. Price volatility for commodities we purchase has increased due to conditions outside of our control, including the current economic environment, currency fluctuations,

availability of supply, weather, consumer demand and changes in governmental agricultural programs. Although we monitor our exposure to commodity prices as an integral part of our overall risk management program, continued volatility in the prices of commodities we purchase could increase the costs of our products and services, and our profitability could suffer.

Our product sales depend on our ability to predict, identify and interpret changes in consumer preferences and demand, and our ability to develop and offer new products rapidly enough to meet those changes.
Consumer preferences for food products change continually. For example, recently, consumers have been increasingly focused on health and wellness with respect to the food products they buy. As a result, over the last several years our products have been subject to scrutiny relating to the health implications of obesity and trans-fatty acids. Our success depends on our ability to predict, identify and interpret the tastes and dietary habits of consumers and to offer products that appeal to those preferences. We have been and will continue to be affected by publicity concerning the health implications of our products, some of which could negatively influence consumer perception and acceptance of our products and marketing programs.

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

Our international operations are subject to additional risks.
We generated approximately 49% of our 2008 sales, 43% of our 2007 sales and 40% of our 2006 sales in foreign countries. Our international operations are subject to inherent risks, including fluctuations in currency values, unpredictability of foreign currency exchange controls, discriminatory fiscal policies, unexpected changes in local regulations and laws, and the uncertainty of enforcement of remedies in foreign jurisdictions. In addition, foreign jurisdictions could impose tariffs, quotas, trade barriers, and other similar restrictions on our international sales. Moreover, our international business operations could be interrupted and negatively affected by economic changes, terrorist activity, political unrest, and other economic or political uncertainties. All of these risks could result in increased costs or decreased revenues, either of which could adversely affect our profitability.

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

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

Business process improvement initiatives to simplify and harmonize our business processes may fail to operate as designed and intended.
We regularly implement business process improvement initiatives to simplify and harmonize our systems processes and to optimize our performance. Our current business process initiatives include, but are not limited to, the Kraft Europe Reorganization, the delivery of an SAP enterprise resource planning application, and the outsourcing of certain administrative functions. If our business process improvement initiatives fail, our ability to improve existing operations and support future growth could be delayed.

Product recalls, injuries caused by products or other legal claims could affect our sales, reputation and profitability.
Selling products for human consumption involves inherent legal risks. We could be required to recall products due to product contamination, spoilage or other adulteration, product misbranding or product tampering. We may also suffer losses if our products or operations violate applicable laws or regulations, or if our products cause injury, illness or death. In addition, our advertising could be the target of claims of false or deceptive advertising. A significant product liability or other legal judgment against us, or a widespread product recall may adversely affect our profitability. Moreover, even if a product liability or consumer fraud claim is unsuccessful, has no merit or is not pursued, the negative publicity surrounding assertions against our products or processes could adversely affect our reputation and profitability.

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

The effects of the present economic environment on the credit markets and changes in our credit ratings could adversely affect our liquidity.
Our $4.5 billion revolving credit facility supports our commercial paper issuances. We use our commercial paper program, in addition to international credit lines, for daily funding requirements. The present economic environment, in general, has restricted access to the credit markets. If the present economic environment worsens, our access to commercial paper, our ability to refinance our credit facility by the time it expires in April 2010 and our ability to secure additional long or short-term financing, on terms and within a time period acceptable to us, could negatively affect our liquidity. In addition, a downgrade in our credit ratings would likely reduce the amount of commercial paper we could issue, and it could raise our borrowing costs for both short-term and long-term debt offerings.

Volatility in the equity markets or interest rates could substantially increase our pension costs and have a negative impact on our operating results and profitability.
At the end of 2008, the projected benefit obligation of our defined benefit pension plans was $9.3 billion and assets were $7.0 billion. The difference between plan obligations and assets, or the funded status of the plans, significantly affects the net periodic benefit costs of our pension plans and the ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, investment returns and the market value of plan assets can (i) affect the level of plan funding; (ii) cause volatility in the net periodic pension cost; and (iii) increase our future funding requirements. In addition, if we divest certain businesses, we may be required to increase future contributions to the benefit plans and the related net periodic pension cost could increase.

We expect to make approximately $390 million in contributions to our pension plans in 2009, which is approximately $170 million more than we made in 2008. We also expect that our net pension cost will increase by approximately $200 million to approximately $440 million in 2009. The current economic environment increases the risk that we may be required to make additional cash contributions to the pension plans and recognize further increases in our net pension cost beyond 2009.

Item 1B. Unresolved Staff Comments.

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

Item 2. Properties.

We have 168 manufacturing and processing facilities worldwide. In North America, we have 58 facilities, and outside of North America, we have 110 facilities located in 45 countries. These manufacturing and processing facilities are located throughout the following territories:

Territory	Number of Facilities
U.S.	46
Canada	12
European Union	56
Eastern Europe, Middle East and Africa	16
Latin America	19
Asia Pacific	19
Total	168

We own 160 and lease 8 of these manufacturing and processing facilities. It is our practice to maintain all of our plants and properties in good condition, and we believe they are suitable and adequate for our present needs.

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

As of December 31, 2008, our distribution facilities consisted of 316 distribution centers and depots worldwide. We own 39 of these distribution centers and 3 of these depots, and we lease 125 of these distribution centers and 149 of these depots. In North America, we had 303 distribution centers and depots, more than 75% of which support our direct-store-delivery systems. Outside North America, we had 13 distribution centers in 8 countries. These facilities are in good condition, and we believe they have sufficient capacity to meet our distribution needs in the near future.

In 2008, we completed our five-year Restructuring Program. As part of the Restructuring Program, we announced the closure of 36 facilities, including 6 plant closures announced during 2008.

Item 3. 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.

Kraft has been involved in litigation with The Procter & Gamble Company (“P&G”) concerning three patents related to roast and ground coffee and the packaging for that coffee. During the course of that litigation P&G sold its coffee business to the J. M. Smucker Company which now owns The Folgers Coffee Company (“Folgers”). On January 16, 2009, we settled the litigation relating to all of those patents and, as part of that settlement, agreed to arbitrate with Folgers the claim relating to U.S. Patent Number 5,721,005 related to roast, ground and flaked coffee products that have been fast-roasted. We do not believe that an adverse finding in this arbitration would materially affect our financial results.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

Forward-Looking Statements

This report contains forward-looking statements regarding how we began implementing changes by transitioning our European Biscuit, Chocolate, Coffee and Cheese categories to fully integrated business units and aligning the reporting of our Central Europe operations into our Kraft Foods Developing Markets segment; our intent to operate a country-led model in these markets and have no plans to implement the Kraft Europe Reorganization in Central Europe; that we will report the results of operations under this structure beginning in the first quarter of 2009 and restate results from prior periods in a consistent manner; our continuing expectation that the *Post* cereals business share exchange will be tax-free to participating shareholders for U.S. federal income tax purposes; our expectation that there will be an adequate supply of the raw materials we use and that they are generally available from numerous sources; our belief that the ultimate resolution of existing environmental remediation actions and our compliance with environmental laws and regulations will not have a material effect on our financial results; our belief that our relationships with our employees and their representative organizations are good; the number of positions we will eliminate in connection with severance initiatives; with regard to our pension plans, the amount we expect to make in contributions in 2009 and the amount we expect our net pension cost to increase; with regard to our Restructuring Program, the number of facilities we intend to close; that it is our practice to maintain all of our plants and properties in good condition; our belief that our plants and property are suitable and adequate for our present needs; our belief that our facilities are in good condition and we have sufficient capacity to meet our distribution needs in the near future; that the final outcome of our legal proceedings will not materially affect our financial results; our plans for year three of our plan to return Kraft to reliable growth; our four growth strategies, in particular, to build a high performing organization with organizational diversity at all levels, the reorganization of Kraft Europe to better maximize our potential there and building scale in Developing Markets by using business models relevant to individual geographies and countries, to reframe our categories to make them more relevant and contemporary with our consumers and by utilizing our Growth Diamond to contemporize our base business, specifically identifying health and wellness trajectory-changing ideas and skewing our resources toward those categories, countries and brands that have the highest potential for return, continuing to exploit our sales capabilities by using our scale as a competitive advantage and better leveraging our portfolio through superior execution and introducing "High Visibility Wall-to-Wall" in large, high turnover stores and geographies, driving down our costs without compromising quality by continuing to leverage quality as a growth driver, by increasing the percentage of products rated superior to preferred and improving our gross margins with our new operating structure in Europe and with the implementation of SAP as our core system in North America and Europe; that we expect to close the divestiture of a juice operation in Brazil by mid-2009; with regard to implementing our new operating structure, the intent to simplify, streamline and increase accountability to generate reliable growth for Kraft and the number of positions we are eliminating; our ability to reorganize our European operations to function on a pan-European centralized category management and value chain model; our expected annual lost tax benefits due to filing separately from Altria; our belief that structuring Canada and North America Foodservice as a standalone reportable segment will drive our business; that our 2009 net expense for employee benefit plans will decrease; that the assumptions we use in recording our pension and postretirement plan obligations are reasonable; our health care cost trend rate assumption; how we intend to rebalance our plan portfolios for our pension plans; that we continuously monitor worldwide supply and cost trends of certain commodities so we can act quickly; our expectation that total 2009 commodity costs will be higher; our belief regarding our liquidity; our growth strategy regarding acquisitions and divestitures; our expectation for, and how we intend to fund, 2009 capital expenditures; our intent to repay long-term debt through the issuance of commercial paper or long-term debt; our belief that Lehman Commercial Paper, Inc.'s bankruptcy will not affect our liquidity; our expectation to continue to meet financial covenants under our revolving credit facility; our expectation that we will continue to comply with our long-term debt covenants; the amount of our expected payment for tax liabilities; that we do not expect to make further share repurchases before our current authority expires; our 2009 Outlook, specifically diluted EPS; our expectation of approximately $0.16 in negative impact from currency, $0.08 in higher pension costs, $0.03 in year-over-year dilution from the exit of the *Post* cereals business and $0.09 impact from spending on cost savings initiatives; and our 2009 effective tax rate.

These forward-looking statements involve risks and uncertainties, and the cautionary statements contained in the "Risk Factors" found in this Annual Report on Form 10-K identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. Such factors, include, but are not limited to, volatility in input costs, pricing actions, increased competition, our ability to differentiate our products from private label products, increased costs of sales, our ability to realize the expected cost savings and spending from our Restructuring Program, difficulty in obtaining materials from our suppliers, the ability to supply our products and meet demand for our products, our indebtedness and our ability to pay our indebtedness, unexpected safety or manufacturing issues, FDA or other regulatory actions or delays, unanticipated expenses such as litigation or legal settlement expenses, a shift in our product mix to lower margin offerings, risks from operating internationally, our ability to protect our intellectual and other proprietary rights, our ability to retain key employees and tax law changes. We disclaim and do not undertake any obligation to update or revise any forward-looking statement in this Form 10-K.

PART II

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

The information called for under Part II Items 5(a) and (b) are incorporated by reference to Note 18, *Quarterly Financial Data (Unaudited)*, which is included within Item 8.

(c) Issuer Purchases of Equity Securities during the Quarter ended December 31, 2008.

Our share repurchase program activity for the three months ended December 31, 2008 was:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)(2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1–31, 2008	–	$ –	130,929,058	$ 723,197,938
November 1–30, 2008	–	$ –	130,929,058	$ 723,197,938
December 1–31, 2008	–	$ –	130,929,058	$ 723,197,938
Pursuant to Publicly Announced Plans or Programs	–			
October 1–31, 2008 (3)	14,571	$ 32.54		
November 1–30, 2008 (3)	8,560	$ 31.20		
December 1–31, 2008 (3)	107,820	$ 27.34		
For the Quarter Ended December 31, 2008	130,951	$ 28.17		

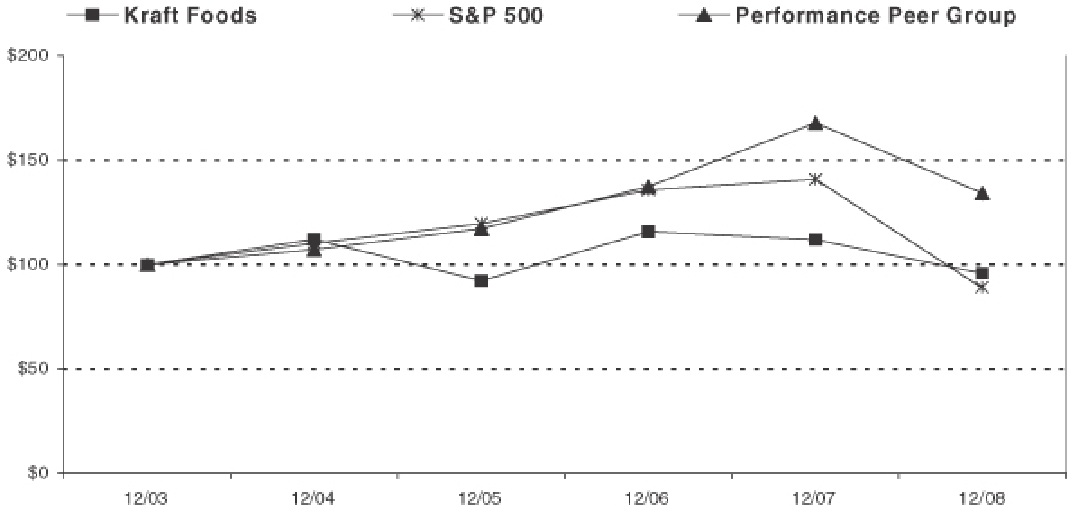
(1) Our two-year, $5.0 billion share repurchase program began on March 30, 2007. We are not obligated to acquire any amount of our Common Stock and may suspend our current program at our discretion.
(2) Aggregate number of shares repurchased under the share repurchase program as of the end of the period presented.
(3) Shares tendered to us by employees who vested in restricted and deferred stock, and used shares to pay the related taxes. As such, these are non-cash transactions.

The principal stock exchange on which our Common Stock is listed is the NYSE. At January 30, 2009, there were approximately 84,000 holders of record of our Common Stock.

(d) Performance Graph.

Comparison of Five-Year Cumulative Total Return

The following graph compares the cumulative total return on our Common Stock with the cumulative total return of the S&P 500 Index and the performance peer group index. The graph assumes the reinvestment of all dividends on a quarterly basis.



Date	Kraft Foods	S&P 500	Performance Peer Group
December 2003	$ 100.00	$ 100.00	$ 100.00
December 2004	$ 113.14	$ 110.85	$ 107.31
December 2005	$ 92.07	$ 116.28	$ 114.00
December 2006	$ 120.10	$ 134.61	$ 136.82
December 2007	$ 113.23	$ 141.99	$ 164.67
December 2008	$ 96.75	$ 89.54	$ 132.88

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

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

Item 6. Selected Financial Data.

Kraft Foods Inc.

Selected Financial Data – Five Year Review
(in millions of dollars, except per share and employee data)

	2008	2007	2006	2005	2004
Summary of Operations:					
Net revenues	$ 42,201	$ 36,134	$ 33,256	$ 33,009	$ 31,140
Cost of sales	28,186	24,057	21,344	21,273	19,746
Operating income	3,817	3,966	4,154	4,360	4,250
Operating margin	9.0%	11.0%	12.5%	13.2%	13.6%
Interest and other expense, net	1,240	604	510	635	666
Earnings from continuing operations before income taxes	2,577	3,362	3,644	3,725	3,584
Provision for income taxes	728	1,002	816	1,061	1,137
Earnings / (loss) from discontinued operations, net of income taxes	1,052	230	232	(32)	218
Net earnings	2,901	2,590	3,060	2,632	2,665
Basic EPS:					
Continuing operations	1.24	1.50	1.72	1.58	1.43
Discontinued operations	0.71	0.14	0.14	(0.02)	0.13
Net earnings	1.95	1.64	1.86	1.56	1.56
Diluted EPS:					
Continuing operations	1.22	1.48	1.71	1.57	1.43
Discontinued operations	0.70	0.14	0.14	(0.02)	0.12
Net earnings	1.92	1.62	1.85	1.55	1.55
Dividends declared per share	1.12	1.04	0.96	0.87	0.77
Dividends declared as a % of Basic EPS	57.4%	63.4%	51.6%	55.8%	49.4%
Dividends declared as a % of Diluted EPS	58.3%	64.2%	51.9%	56.1%	49.7%
Weighted-average shares – Basic	1,491	1,575	1,643	1,684	1,709
Weighted-average shares – Diluted	1,510	1,594	1,655	1,693	1,714
Net cash provided by operating activities	4,141	3,571	3,720	3,464	4,008
Capital expenditures	1,367	1,241	1,169	1,171	1,006
Depreciation	963	873	884	869	868
Property, plant and equipment, net	9,917	10,778	9,693	9,817	9,985
Inventories, net	3,729	4,096	3,506	3,343	3,447
Total assets	63,078	67,993	55,574	57,628	59,928
Long-term debt	18,589	12,902	7,081	8,475	9,723
Total debt	20,251	21,009	10,821	11,200	12,518
Total long-term liabilities	29,834	23,612	16,546	19,311	20,939
Shareholders’ equity	22,200	27,295	28,555	29,593	29,911
Book value per common share outstanding	15.11	17.79	17.45	17.72	17.54
Market price per Common Stock share – high / low	34.97–24.75	37.20–29.95	36.67–27.44	35.65–27.88	36.06–29.45
Closing price of Common Stock at year end	26.85	32.63	35.70	28.17	35.61
Price / earnings ratio at year end – Basic	14	20	19	18	23
Price / earnings ratio at year end – Diluted	14	20	19	18	23
Number of common shares outstanding at year end	1,469	1,534	1,636	1,670	1,705
Number of employees	98,000	103,000	90,000	94,000	98,000

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

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

Description of the Company

We manufacture and market packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products, in approximately 150 countries.

Executive Summary

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

- Net revenues in 2008 increased 16.8% to $42.2 billion. Net revenues in 2007 increased 8.7% to $36.1 billion.

- Diluted EPS increased 18.5% to $1.92 in 2008, and decreased 12.4% to $1.62 in 2007. Diluted EPS from continuing operations decreased 17.6% to $1.22 in 2008, and decreased 13.5% to $1.48 in 2007.

- We made solid progress executing our long-term growth strategy, which focuses on: building a high performing organization; reframing our categories; exploiting our sales capabilities; and driving down costs without compromising quality.

- On November 30, 2007, we acquired the global *LU* biscuit business of Groupe Danone S.A. for €5.1 billion (approximately $7.6 billion) in cash. *LU* Biscuit contributed net revenues of $3.2 billion during 2008, and $2.8 billion on a proforma basis during 2007.

- On August 4, 2008, we completed the split-off of the *Post* cereals business. As a result of the split-off, we recorded a gain on discontinued operations of $937 million, or $0.62 per diluted share, in 2008. The results of the *Post* cereals business were reflected as discontinued operations on the consolidated statement of earnings and prior period results were restated in a consistent manner.

- In 2008, we completed our $3.1 billion, five-year Restructuring Program. We recorded charges of $989 million during 2008, $459 million during 2007 and $673 million during 2006 as part of our overall Restructuring Program.

- In 2008, we issued approximately $7.0 billion of senior unsecured notes. We used the net proceeds from these issuances for general corporate purposes, including the repayment of borrowings under the bridge facility used to fund our *LU* Biscuit acquisition and other short-term borrowings.

- During 2008, we repurchased 25.3 million shares of our Common Stock for $777 million under our $5.0 billion share repurchase program.

- In the third quarter of 2008, our Board of Directors approved a 7.4% increase in the current quarterly dividend rate to $0.29 per share on our Common Stock. As a result, our current annualized dividend rate is $1.16 per share of Common Stock.

- In the first quarter of 2007, Altria Group, Inc. ("Altria") spun off its remaining 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.

Discussion and Analysis

Growth Strategy

At the Consumer Analyst Group of New York ("CAGNY") Conference in February 2009, we presented the progress we made in 2008 on our long-term growth strategy and our plans for year three of our plan to return Kraft to reliable growth. Our four growth strategies and 2008 developments are summarized below.

Build a high performing organization – We have done a lot over the past two years to rewire Kraft and create a high performance culture. We have strengthened our senior leadership team and leveraged our business unit structure. We will continue to raise the bar on talent through internal development and external hiring with the goal of organizational diversity at all levels. Effective January 2009, we are reorganizing Kraft Europe to better maximize our potential there, and we already integrated the legacy Kraft and *LU* Biscuit operations within key markets in our Developing Markets segment. We are further building scale in Developing Markets by using business models relevant in individual geographies and countries.

Reframe our categories – We continue to reframe our categories in order to make them more relevant and contemporary with our consumers. We are utilizing our "Growth Diamond" to contemporize our base business, specifically to identify health and wellness trajectory-changing ideas and skew our resources toward those categories, countries and brands that have the highest potential for return. Furthermore, we strengthened our category mix through various acquisitions, divestitures and product pruning over the last few years.

Exploit our sales capabilities – We will continue to use our large scale as a competitive advantage and better leverage our portfolio through superior execution. Our "Wall-to-Wall" initiative for Kraft North America combined the executional benefits of direct-store-delivery used in our Biscuit business unit with the economics of our warehouse delivery to drive faster growth. We are expanding upon that idea with "High Visibility Wall-to-Wall" in large, high turnover stores and geographies.

Drive down costs without compromising quality – We have found new ways to drive sustainable cost savings, while continuing to invest in the quality of our core brands, despite significant increases in product costs. We will continue to leverage quality as a growth driver by increasing the percentage of products rated superior and preferred. We plan to improve gross margins with our new operating structure in Europe and with the implementation of SAP as our core system in North America and Europe.

Items Affecting Comparability of Financial Results

Acquisitions and Divestitures

LU Biscuit Acquisition:

On November 30, 2007, we acquired the global *LU* biscuit business of Groupe Danone S.A. ("*LU* Biscuit") for €5.1 billion (approximately $7.6 billion) in cash. The acquisition included 32 manufacturing facilities and approximately 14,000 employees. We acquired net assets consisting primarily of goodwill of $4,052 million (which will not be deductible for statutory tax purposes), intangible assets of $3,546 million (substantially all of which are indefinite-lived), receivables of $757 million, property, plant and equipment of $1,054 million and inventories of $204 million, and assumed liabilities of $1,063 million consisting primarily of accounts payable and accruals. These purchase price allocations were based upon appraisals that were finalized in the third quarter of 2008. We used borrowings of €5.1 billion to finance this acquisition. Interest incurred on these borrowings was the primary driver of the $533 million increase in interest expense during 2008. *LU* Biscuit contributed net revenues of $3.2 billion during 2008, and $2.8 billion on a proforma basis during 2007. *LU* Biscuit reported results from operations on a one month lag in 2007; as such, there was no impact on our operating results. On a proforma basis, *LU* Biscuit's net earnings for the year ended December 31, 2007 would have been insignificant to Kraft.

United Biscuits Acquisition:

In 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. The redemption of our outstanding investment resulted in a gain on closing of $251 million, or $0.09 per diluted share, in the third quarter of 2006.

Post Cereals Split-off:

On August 4, 2008, we completed the split-off of the *Post* cereals business into Ralcorp Holdings, Inc. ("Ralcorp"), after an exchange with our shareholders. The exchange is expected to be tax-free to participating shareholders for U.S. federal income tax purposes.

In this split-off transaction, approximately 46.1 million shares of Kraft Common Stock were tendered for $1,644 million. Our shareholders had the option to exchange some or all of their shares of Kraft Common Stock and receive shares of common stock of Cable Holdco, Inc. ("Cable Holdco"). Cable Holdco was our wholly owned subsidiary that owned certain assets and liabilities of the *Post* cereals business. In exchange for the contribution of the *Post* cereals business, Cable Holdco issued approximately $665 million in debt securities, issued shares of its common stock and assumed a $300 million credit facility. Upon closing, we used the cash equivalent net proceeds, approximately $960 million, to repay debt. As a result of the split-off, we recorded a gain on discontinued operations of $937 million, or $0.62 per diluted share, in 2008.

On June 25, 2008, Cable Holdco filed a registration statement on Form S-1/S-4/A with the SEC that announced the start of the exchange offer. Approximately 30.5 million shares of Cable Holdco were offered in exchange for Kraft Common Stock at an exchange ratio of 0.6606. The exchange ratio was calculated using the daily volume-weighted average prices of Kraft Common Stock and Ralcorp common stock on the NYSE on the last three trading days of the offer, which expired on August 4, 2008. The exchange offer was over-subscribed and as a result, the number of shares of Kraft Common Stock accepted for exchange in the offer was prorated. Following the merger of Cable Holdco and a Ralcorp subsidiary, the Cable Holdco common stock was exchanged for shares of Ralcorp common stock on a one-for-one basis.

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

The results of the *Post* cereals business were reflected as discontinued operations on the consolidated statement of earnings and prior period results were restated in a consistent manner. Pursuant to the *Post* cereals business Transition Services Agreement, we agreed to provide certain sales, co-manufacturing, distribution, information technology, and accounting and finance services to Ralcorp for up to 12 months, with Ralcorp's option to extend it for an additional 6 months.

During the fourth quarter of 2008, we increased our gain on discontinued operations by $77 million to correct for a deferred tax liability that should have been written-off upon the split-off of the *Post* cereals business. As such, our gain from the split-off of the *Post* cereals business was $937 million.

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

	For the Years Ended December 31,		
	2008	2007	2006
		(in millions)	
Net revenues	$ 666	$ 1,107	$ 1,100
Earnings before income taxes	184	365	367
Provision for income taxes	(69)	(135)	(135)
Gain on discontinued operations, net of income taxes	937	–	–
Earnings and gain from discontinued operations, net of income taxes	$ 1,052	$ 230	$ 232

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

Inventories, net	$ 83
Property, plant and equipment, net	425
Goodwill	1,234
Other assets	11
Other liabilities	(3)
Distributed assets of the *Post* cereals business	$ 1,750

Other Divestitures:
In February 2009, we reached an agreement to divest a juice operation in Brazil. The transaction is subject to customary closing conditions, including regulatory approvals, and we expect it to close by mid-2009.

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

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

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

In 2007, we received $216 million in proceeds and recorded pre-tax gains of $15 million on the divestitures of our hot cereal assets and trademarks, our sugar confectionery assets in Romania and related trademarks and our flavored water and juice brand assets and related trademarks, including *Veryfine* and *Fruit2O*. We recorded an after-tax loss of $3 million on these divestitures to reflect the differing book and tax bases of our hot cereal assets and trademarks divestiture.

In 2006, we received $946 million in proceeds and recorded pre-tax gains of $117 million on the divestitures of our pet snacks brand and assets, rice brand and assets, certain Canadian assets, our industrial coconut assets, a U.S. biscuit brand and a U.S. coffee plant. We recorded after-tax gains of $31 million, or $0.02 per diluted share, on these divestitures, which reflects the tax expense of $57 million related to the differing book and tax bases on our pet snacks brand and assets divestiture.

The aggregate operating results of the divestitures discussed above, other than the divestiture of the *Post* cereals business, were not material to our financial statements in any of the periods presented. Refer to Note 17, *Segment Reporting*, for details of all (losses) / gains on divestitures by segment. The net impacts to segment operating income from (losses) / gains on divestitures, along with resulting asset impairment charges, are summarized in the table below.

Asset Impairment Charges

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

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

We recorded aggregate asset impairment charges in 2006 amounting to $424 million, or $0.17 per diluted share. During our 2006 annual review of goodwill and non-amortizable intangible assets, we recorded a $24 million charge for the impairment of intangible assets in Egypt and our hot cereal intangible assets in the U.S. In addition, we incurred an asset impairment charge of $69 million in 2006 in anticipation of the 2007 divestiture of our hot cereal assets and trademarks. The charge primarily included the write-off of a portion of the associated goodwill of $15 million and intangible assets of $52 million. Additionally, in 2006, we incurred an asset impairment charge of $86 million in recognition of the pet snacks brand and assets divestiture. The charge primarily included the write-off of a portion of the associated goodwill of $25 million and intangible assets of $55 million. Also during 2006, we re-evaluated the business model for our *Tassimo* hot beverage system due to lagging revenues. This evaluation resulted in a $245 million asset impairment charge from lower utilization of existing manufacturing capacity. We recorded the aggregate asset impairment charges within asset impairment and exit costs.

Refer to Note 6, *Asset Impairment, Exit and Implementation Costs*, for details of all asset impairment charges by segment. The net impacts to segment operating income from (losses) / gains on divestitures and the corresponding asset impairment charges are summarized in the table below.

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions; 2007& 2006 restated)		
(Losses) / Gains & Asset Impairment Charges on Divestitures, net:			
Kraft North America:			
U.S. Beverages	$ (1)	$ (125)	$ (95)
U.S. Cheese	–	–	–
U.S. Convenient Meals	–	–	–
U.S. Grocery	–	–	226
U.S. Snacks (1)	–	12	(160)
Canada & N.A. Foodservice	–	–	(9)
Kraft International:			
European Union	(146)	–	–
Developing Markets	(13)	8	–
Total net impact from divestitures	$ (160)	$ (105)	$ (38)

(1) This segment was formerly known as U.S. Snacks and Cereals.

Restructuring Program

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

- incurred $3.1 billion in pre-tax charges reflecting asset disposals, severance and implementation costs;
- announced the closure of 36 facilities and announced the elimination of approximately 19,000 positions;
- will use cash to pay for $2.0 billion of the $3.1 billion in charges; and
- anticipate reaching cumulative, annualized savings of $1.4 billion for the total program.

In 2008, we implemented a new operating structure built on three core elements: business units; shared services that leverage the scale of our global portfolio; and a streamlined corporate staff. Within the new structure, business units now have full P&L accountability and are staffed accordingly. This also ensures that we are putting our resources closer to where we make decisions that affect our consumers and customers. Our corporate and shared service functions continue to streamline their organizations and focus on core activities that can more efficiently support the goals of the business units. The intent is to simplify, streamline and increase accountability, with the ultimate goal of generating reliable growth for Kraft. In total, we will eliminate approximately 1,500 positions as we streamline our headquarter functions.

We incurred charges under the Restructuring Program from continuing operations of $989 million in 2008 or $0.45 per diluted share; $447 million in 2007, or $0.19 per diluted share; and $670 million in 2006, or $0.27 per diluted share. Since the inception of the Restructuring Program, we have paid cash for $1.5 billion of the $3.1 billion in charges. At December 31, 2008, we had $489 million accrued in Restructuring Program costs. As part of the Restructuring Program, we announced the closure of six plants during 2008. In connection with our severance initiatives, as of December 31, 2008, we had eliminated approximately 15,200 positions, and we had announced our intent to eliminate an additional 3,800 positions.

Under the Restructuring Program, we recorded asset impairment and exit costs from continuing operations of $884 million during 2008, $320 million during 2007 and $575 million during 2006. We recorded implementation costs from continuing operations of $105 million in 2008, $127 million in 2007 and $95 million in 2006. Implementation costs are directly attributable to exit costs; however, they do not qualify for treatment under Statement of Financial Accounting Standards ("SFAS") No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. These costs primarily include the discontinuance of certain product lines, incremental expenses related to the closure of facilities, the Electronic Data Systems ("EDS") transition and the reorganization of our European operations discussed below. Management believes the disclosure of implementation charges provides readers of our financial statements greater transparency to the total costs of our Restructuring Program.

In addition, we made $498 million in capital expenditures to implement the Restructuring Program, including $111 million spent in 2008. Incremental cost savings totaled approximately $283 million in 2008, resulting in cumulative annualized savings under the Restructuring Program of approximately $1,066 million by the end of 2008. Cumulative annualized cost savings resulting from the Restructuring Program were approximately $783 million by the end of 2007. Refer to Note 6, *Asset Impairment, Exit and Implementation Costs*, for details of our Restructuring Program by segment.

Kraft Europe Reorganization

We are also in the process of reorganizing our European operations to function on a pan-European centralized category management and value chain model. After the reorganization is complete, the European Principal Company ("EPC") will manage the European categories centrally and make decisions for all aspects of the value chain, except for sales and distribution. The European subsidiaries will execute sales and distribution locally, and the local production companies will act as toll manufacturers on behalf of the EPC. The EPC legal entity has been incorporated as Kraft Foods Europe GmbH in Zurich, Switzerland. As part of the reorganization, we incurred $16 million of restructuring costs, $39 million of implementation costs and $11 million of non-recurring costs during 2008; $21 million of restructuring costs, $24 million of implementation costs and $10 million of other non-recurring costs during 2007; and $7 million of restructuring costs during 2006. Restructuring and implementation costs are recorded as part of our overall Restructuring Program. Other costs relating to our Kraft Europe Reorganization are recorded as marketing, administration and research costs. Management believes the disclosure of implementation and other non-recurring charges provides readers of our financial statements greater transparency to the total costs of our Kraft Europe Reorganization.

Provision for Income Taxes

Our effective tax rate was 28.2% in 2008, 29.8% in 2007 and 22.4% in 2006. Our effective tax rate included net tax benefits of $242 million from discrete tax events in 2008. Of the total net tax benefits, $29 million related to a reconciliation of our inventory of deferred tax items that resulted in a write-down of our net deferred tax liabilities in the third quarter, and $42 million related to fourth quarter corrections of state, federal and foreign tax liabilities. The remaining net tax benefits primarily related to the resolution of various tax audits and the expiration of statutes of limitations in various jurisdictions. Other discrete tax benefits included the impact from divestitures of a Nordic and Baltic snacks operation and several operations in Spain and the tax benefit from impairment charges taken in 2008. In addition, the 2008 tax rate benefited from foreign earnings taxed below the U.S. federal statutory tax rate and from the expected tax benefit on 2008 restructuring expenses. These benefits were only partially offset by state tax expense and certain foreign tax costs.

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

During 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 2006 due to the IRS settlement was $405 million, or $0.24 per diluted share. The 2006 tax rate also benefited from the resolution of various tax items in our foreign operations, dividend repatriation benefits, joint venture earnings, and lower foreign tax rates enacted in 2006 (primarily Canada). These benefits were partially offset by state tax expense and by the tax costs associated with our 2006 divestitures.

As a result of our spin-off, Altria transferred our federal tax contingencies of $375 million to our balance sheet and related interest income of $77 million, or $0.03 per diluted share, in the first quarter of 2007. Following our spin-off from Altria, we are no longer a member of the Altria consolidated tax return group, and we now file our own federal consolidated income tax returns. Although we have taken steps to mitigate the loss of tax benefits 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.

Consolidated Results of Operations

The following discussion compares our consolidated results of operations for 2008 with 2007, and for 2007 with 2006.

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

2008 compared with 2007:

	For the Years Ended December 31, 2008	2007	$ change	% change
	(in millions, except per share data; 2007 restated)			
Net revenues	$ 42,201	$ 36,134	$ 6,067	16.8%
Operating income	3,817	3,966	(149)	(3.8%)
Earnings from continuing operations	1,849	2,360	(511)	(21.7%)
Net earnings	2,901	2,590	311	12.0%
Diluted earnings per share	1.92	1.62	0.30	18.5%

Net Revenues – Net revenues increased $6,067 million (16.8%) to $42,201 million in 2008, due to the following:

Change in net revenues (by percentage point)	
2007 *LU* Biscuit acquisition	8.9pp
Higher net pricing	7.4pp
Favorable foreign currency	2.1pp
Favorable mix	0.8pp
Favorable resolution of a Brazilian value added tax claim	0.2pp
Impact of divestitures	(0.8)pp
Lower volume	(1.8)pp
Total change in net revenues	**16.8%**

Our *LU* Biscuit acquisition was the largest increase to net revenues as no revenues were recorded from it in the prior year. Furthermore, net revenues increased as we increased pricing to offset higher input costs and investments in our brands. Foreign currency increased net revenues by $725 million, due primarily to the strength of the euro, Brazilian real, Polish zloty and Canadian dollar against the U.S. dollar. Higher base business shipments in our Canada & N.A. Foodservice, Developing Markets and U.S. Convenient Meals segments were more than offset by declines in our remaining business segments. Total volume increased 3.9%, with 5.7 pp due to our *LU* Biscuit acquisition, net of divestitures.

Operating Income – Operating income declined $149 million (3.8%) to $3,817 million in 2008, due to the following (in millions):

2007 Operating Income	**$ 3,966**
Change in operating income	
Higher pricing	2,633
Higher input costs	(1,920)
Increased unrealized losses on hedging activities	(221)
Lower volume	(268)
Favorable mix	139
Increased operating income from our *LU* Biscuit acquisition	438
Integration costs associated with our *LU* Biscuit acquisition	(78)
Higher marketing, administration and research costs	(266)
Higher Restructuring Program costs	(542)
Higher asset impairment charges	(20)
Higher losses on divestitures, net	(107)
Increased charges for legal matters	(72)
Favorable resolution of a Brazilian value added tax claim	67
Favorable foreign currency	60
Other, net	8
Total change in operating income	**(149)**
2008 Operating Income	**$ 3,817**

Higher pricing outpaced our input cost increases during the year, as we recovered cumulative cost increases from prior years. The increase in input costs was primarily related to higher raw material costs. The increase in unrealized losses on hedging activities primarily related to energy derivatives, including heating oil (used primarily to hedge transportation costs) and natural gas contracts. Our *LU* Biscuit acquisition, net of integration costs, increased operating income by $360 million. Total marketing, administration and research costs, as recorded in the consolidated statement of earnings, increased $1,386 million over the prior year and, excluding the impacts of acquisitions, divestitures, foreign currency and charges for legal matters, increased $266 million over the prior year. The net impact of losses on divestitures and asset impairments had an unfavorable impact of $127 million on operating income versus the prior year. The charges for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations. Charges for legal matters were recorded within marketing, administration and research costs. In addition, foreign currency increased operating income by $60 million, due primarily to the strength of the Brazilian real, euro, Polish zloty and Canadian dollar against the U.S. dollar.

As a result of these changes, operating margin also decreased from 11.0% in 2007 to 9.0% in 2008.

Earnings per Share – Net earnings of $2,901 million increased by $311 million (12.0%) in 2008. Diluted earnings per share were $1.92, up 18.5% from $1.62 in 2007, due to the following:

	Net Earnings	Diluted EPS
	(in millions, except per share data)	
2007 Earnings	**$ 2,590**	**$ 1.62**
Change in net earnings		
Increases in operations		0.13
Impact to operations from our *LU* Biscuit acquisition		0.15
Increased unrealized losses on hedging activities		(0.09)
Higher Restructuring Program costs		(0.26)
Higher asset impairment charges		(0.04)
Higher losses on divestitures, net		(0.04)
Charges for legal matters		(0.03)
Favorable resolution of a Brazilian value added tax claim		0.03
Higher interest and other expense		(0.23)
2007 Interest from Altria tax reserve		(0.03)
Deferred tax reconciliation		0.02
Other changes in taxes		0.03
Change in net earnings from continuing operations		(0.36)
Gain on the split-off of our *Post* cereals business		0.62
Decreased earnings from discontinued operations		(0.06)
Change in net earnings from discontinued operations		0.56
Fewer shares outstanding		0.10
Total change in net earnings	**311**	**0.30**
2008 Earnings	**$ 2,901**	**$ 1.92**

The increase in operations includes a benefit of $0.02 per diluted share of foreign currency movements.

2007 compared with 2006:

	For the Years Ended December 31, 2007	2006	$ change	% change
	(in millions, except per share data; as restated)			
Net revenues	$ 36,134	$ 33,256	$ 2,878	8.7%
Operating income	3,966	4,154	(188)	(4.5%)
Earnings from continuing operations	2,360	2,828	(468)	(16.5%)
Net earnings	2,590	3,060	(470)	(15.4%)
Diluted earnings per share	1.62	1.85	(0.23)	(12.4%)

Net Revenues – Net revenues increased $2,878 million (8.7%) to $36,134 million in 2007, due to the following:

Change in net revenues (by percentage point)	
Favorable foreign currency	3.2pp
Higher volume	1.8pp
Favorable mix	1.8pp
Higher net pricing	1.7pp
Impact of acquisitions	0.7pp
Impact of divestitures	(0.5)pp
Total change in net revenues	**8.7%**

Foreign currency increased net revenues by $1,045 million, due primarily to the strength of the euro and Canadian dollar against the U.S. dollar. Higher base shipments in our international, U.S. Convenient Meals, U.S. Beverages, U.S. Snacks and U.S. Cheese segments more than offset declines in our U.S. Grocery and Canada & N.A. Foodservice segments. Total volume increased 1.4%, including a decline of 0.4 pp due to divestitures, net of our UB acquisition. Furthermore, net revenues increased as we increased pricing to offset higher input costs.

Operating Income – Operating income declined $188 million (4.5%) to $3,966 million in 2007, due to the following (in millions):

2006 Operating Income	**$ 4,154**
Change in operating income	
Higher input costs	(1,079)
Higher pricing	543
Higher volume	261
Favorable mix	214
2006 Gain on redemption of UB investment	(251)
Higher marketing, administration and research costs	(333)
Lower Restructuring Program charges	223
Lower asset impairment charges	304
Lower gains on divestitures, net	(102)
Decreased operating income from 2006 divestitures	(101)
Favorable foreign currency	121
Other, net	12
Total change in operating income	**(188)**
2007 Operating Income	**$ 3,966**

Our input cost increases outpaced higher pricing. The increase in input costs primarily related to higher raw material costs, net of $16 million from unrealized gains on hedging activities. Total marketing, administration and research costs, as recorded in the consolidated statement of earnings, increased $553 million over the prior year and, excluding the impacts of acquisitions, divestitures and foreign currency, increased $333 million over the prior year. The net impact of gains on divestitures and asset impairments had a favorable impact of $202 million on operating income versus the prior year. The absence of the prior year divestitures decreased operating income $101 million. In addition, foreign currency increased operating income by $121 million, due primarily to the strength of the euro and Canadian dollar against the U.S. dollar.

As a result of these changes, operating margin also decreased from 12.5% in 2006 to 11.0% in 2007.

Earnings per Share – Net earnings of $2,590 million decreased by $470 million (15.4%) in 2007. Diluted earnings per share were $1.62, down 12.4% from $1.85 in 2006, due to the following:

	Net Earnings	Diluted EPS
	(in millions, except per share data; as restated)	
2006 Earnings	**$ 3,060**	**$ 1.85**
Change in net earnings		
Decreases in operations		(0.12)
Increased unrealized gains on hedging activities		0.01
Lower asset impairment charges		0.14
2006 Gain on redemption of UB investment		(0.09)
Lower Restructuring Program costs		0.08
Decreased operating income from 2006 divestitures		(0.04)
Lower gains on divestitures, net		(0.02)
2006 Favorable resolution of the Altria 1996-1999 IRS Tax Audit		(0.24)
Higher interest and other expense		(0.05)
2007 Interest from Altria tax reserves		0.03
Other changes in taxes		0.01
Change in net earnings from continuing operations		(0.29)
Decreased earnings from discontinued operations		–
Change in net earnings from discontinued operations		–
Fewer shares outstanding		0.06
Total change in net earnings	**(470)**	**(0.23)**
2007 Earnings	**$ 2,590**	**$ 1.62**

The decrease in operations includes a benefit of $0.05 per diluted share of foreign currency movements.

Results of Operations by Business Segment

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.

Kraft North America's segments are U.S. Beverages, U.S. Cheese, U.S. Convenient Meals, U.S. Grocery, U.S. Snacks (formerly known as U.S. Snacks & Cereals) and Canada & North America Foodservice. The two international segments are European Union and Developing Markets.

Effective August 4, 2008, we completed the split-off of the *Post* cereals business. The results of the *Post* cereals business were reflected as discontinued operations on the consolidated statement of earnings and prior period results were restated in a consistent manner.

In 2008, we implemented a new operating structure. As a result, we began reporting the results of operations under this new structure in the first quarter of 2008 and restated results from prior periods in a consistent manner. The changes were:

- U.S. Cheese was organized as a standalone operating segment in order to create a more self-contained and integrated business unit in support of faster growth.
- Our macaroni and cheese category, as well as other dinner products, were moved from our U.S. Convenient Meals segment to our U.S. Grocery segment to take advantage of operating synergies.
- Canada and North America Foodservice were structured as a standalone reportable segment. This change allows us to deliver on the unique requirements of the Canadian consumer and customer while maintaining strong North American linkages to innovation, new product development and new capabilities to drive our business. Furthermore, it allows us to manage strategic customer decisions and continue to capture cross-border sales and marketing synergies within our Foodservice operations.

The following discussion compares our results of operations for each of our reportable segments for 2008 with 2007, and for 2007 with 2006.

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions; 2007 & 2006 restated)		
Net revenues:			
Kraft North America:			
U.S. Beverages	$ 3,001	$ 2,990	$ 2,886
U.S. Cheese	4,007	3,745	3,544
U.S. Convenient Meals	4,240	3,905	3,697
U.S. Grocery	3,389	3,277	3,225
U.S. Snacks	5,025	4,879	4,834
Canada & N.A. Foodservice	4,294	4,080	3,874
Kraft International:			
European Union	11,259	7,951	6,669
Developing Markets	6,986	5,307	4,527
Net revenues	$ 42,201	$ 36,134	$ 33,256

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions; 2007 & 2006 restated)		
Operating income:			
Kraft North America:			
U.S. Beverages	$ 370	$ 316	$ 204
U.S. Cheese	622	400	660
U.S. Convenient Meals	399	387	412
U.S. Grocery	1,002	1,012	1,254
U.S. Snacks	530	607	444
Canada & N.A. Foodservice	438	404	426
Kraft International:			
European Union	412	569	547
Developing Markets	585	474	403
Unrealized (losses) / gains on hedging activities	(205)	16	–
General corporate expenses	(313)	(206)	(189)
Amortization of intangibles	(23)	(13)	(7)
Operating income	$ 3,817	$ 3,966	$ 4,154

As discussed in Note 17, *Segment Reporting*, management uses segment operating income to evaluate segment performance and allocate resources. Management believes it is appropriate to disclose this measure to help investors analyze segment performance and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which is a component of cost of sales), general corporate expenses and amortization of intangibles for all periods presented. In the second quarter of 2008, we began excluding unrealized gains and losses on hedging activities from segment operating income in order to provide better transparency of our segment operating results. Once realized, the gains and losses on hedging activities are recorded within segment operating results.

In 2008, unrealized losses on hedging activities increased $221 million, due primarily to energy derivatives, including heating oil (used primarily to hedge transportation costs) and natural gas contracts. In addition, general corporate expenses (which is a component of marketing, administration and research costs) increased $107 million in 2008, primarily due to charges for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations.

We incurred asset impairment, exit and implementation costs of $1,129 million in 2008, $579 million in 2007 and $1,097 million in 2006. Refer to Note 6, *Asset Impairment, Exit and Implementation Costs*, for a breakout of charges by segment.

U.S. Beverages

	For the Years Ended December 31, 2008	2007	$ change	% change
	(in millions; 2007 restated)			
Net revenues	$ 3,001	$ 2,990	$ 11	0.4%
Segment operating income	370	316	54	17.1%

	For the Years Ended December 31, 2007	2006	$ change	% change
	(in millions; as restated)			
Net revenues	$ 2,990	$ 2,886	$ 104	3.6%
Segment operating income	316	204	112	54.9%

2008 compared with 2007:
Net revenues increased $11 million (0.4%), due to higher net pricing (4.9 pp) and favorable mix (1.7 pp), partially offset by lower volume (3.8 pp) and the impact of divestitures (2.4 pp). Higher net pricing reflected input cost-driven pricing in coffee and lower promotional spending in ready-to-drink beverages. Favorable mix reflected growth in *Tassimo*. Lower volume was driven by declines in ready-to-drink beverages, primarily *Capri Sun*, partially offset by gains in powdered beverages, primarily *Country Time* and *Kool-Aid*, and *Maxwell House* mainstream coffee.

Segment operating income increased $54 million (17.1%), due primarily to higher net pricing, a 2007 asset impairment charge related to our flavored water and juice brand assets and related trademarks, favorable mix and the impact of divestitures, partially offset by higher raw material costs, lower volume, higher Restructuring Program costs and higher marketing, administration and research costs.

2007 compared with 2006:
Net revenues increased $104 million (3.6%), due to favorable mix (2.5 pp), higher volume (1.8 pp) and higher net pricing (0.9 pp), partially offset by the impact of divestitures (1.6 pp). Favorable mix from *Crystal Light On the Go* sticks and premium coffee contributed to higher net revenues. Higher volume was driven by ready-to-drink beverages, primarily *Capri Sun*, partially offset by lower shipments of powdered beverages and *Maxwell House* mainstream coffee. Higher input cost-driven pricing in coffee was partially offset by increased promotional spending in ready-to-drink and powdered beverages.

Segment operating income increased $112 million (54.9%), due primarily to the 2006 loss on the divestiture of a U.S. coffee plant, the 2006 asset impairment charge related to our *Tassimo* hot beverage system, favorable mix, lower marketing support costs, higher net pricing, higher volume, lower manufacturing costs and lower Restructuring Program costs. These favorable factors were partially offset by an asset impairment charge related to our flavored water and juice brand assets and related trademarks and higher raw material costs (primarily related to coffee and packaging).

U.S. Cheese

	For the Years Ended December 31, 2008	2007	$ change	% change
	(in millions; 2007 restated)			
Net revenues	$ 4,007	$ 3,745	$ 262	7.0%
Segment operating income	622	400	222	55.5%

	For the Years Ended December 31, 2007	2006	$ change	% change
	(in millions; as restated)			
Net revenues	$ 3,745	$ 3,544	$ 201	5.7%
Segment operating income	400	660	(260)	(39.4%)

2008 compared with 2007:
Net revenues increased $262 million (7.0%), due to higher net pricing (14.1 pp), partially offset by lower volume (6.7 pp) and unfavorable mix (0.4 pp). Higher net pricing reflected input cost-driven pricing, partially offset by increased promotional spending in our natural cheese category. Lower volume was driven by declines in all of our major cheese categories, partially offset by new product innovations, primarily *Kraft Bagel-fuls*.

Segment operating income increased $222 million (55.5%) due primarily to higher net pricing and lower Restructuring Program costs, partially offset by higher raw material costs, lower volume, unfavorable mix, higher fixed manufacturing costs and higher marketing, administration and research costs.

2007 compared with 2006:
Net revenues increased $201 million (5.7%), due to higher net pricing (4.7 pp), favorable mix (0.8) and higher volume (0.2 pp). Higher net pricing reflected input cost-driven pricing, partially offset by increased promotional spending, primarily in our cultured, snacking cheese and cream cheese categories. Favorable volume/mix was driven primarily by new product introductions such as *Singles Select* cheese slices and *LiveActive* natural and cottage cheese.

Segment operating income decreased $260 million (39.4%), due primarily to higher raw material costs, higher marketing support costs and higher marketing, administration and research costs. These unfavorable variances were partially offset by higher net pricing, lower manufacturing costs and lower Restructuring Program costs.

U.S. Convenient Meals

	For the Years Ended December 31,			
	2008	2007	$ change	% change
	(in millions; 2007 restated)			
Net revenues	$ 4,240	$ 3,905	$ 335	8.6%
Segment operating income	399	387	12	3.1%

	For the Years Ended December 31,			
	2007	2006	$ change	% change
	(in millions; as restated)			
Net revenues	$ 3,905	$ 3,697	$ 208	5.6%
Segment operating income	387	412	(25)	(6.1%)

2008 compared with 2007:
Net revenues increased $335 million (8.6%), due to higher net pricing (5.6 pp), favorable mix (2.2 pp) and higher volume (0.8 pp). Net revenues increased in meats due to higher net pricing, driven by input cost-driven pricing in sandwich meats, *Lunchables* and hot dogs. Also contributing to meats net revenue growth was higher shipments of bacon, as well as new product introductions, including *Oscar Mayer Deli Creations* sandwiches (Flatbreads) and *Oscar Mayer Deli Fresh* meats (Shaved Singles and Carved). In pizza, net revenues increased due to higher input cost-driven pricing, net of increased promotional spending, volume growth in *DiGiorno* and *California Pizza Kitchen* premium brands and the launch of the *For One* product line of individual size pizzas.

Segment operating income increased $12 million (3.1%), due primarily to higher net pricing, favorable mix, higher volume and lower marketing support costs, partially offset by higher input costs (primarily higher raw material costs) and higher marketing, administration and research costs.

2007 compared with 2006:
Net revenues increased $208 million (5.6%), due to higher volume (3.4 pp), favorable mix (1.6 pp) and higher net pricing (0.6 pp). Net revenues increased in meat due to higher shipments of sandwich meat, new product introductions and higher input cost-driven 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.

Segment operating income decreased $25 million (6.1%), due primarily to higher raw material costs, higher fixed manufacturing costs, higher marketing support costs and higher marketing, administration and research costs, partially offset by lower Restructuring Program charges, higher volume and higher net pricing.

U.S. Grocery

	For the Years Ended December 31, 2008	2007	$ change	% change
	(in millions; 2007 restated)			
Net revenues	$ 3,389	$ 3,277	$ 112	3.4%
Segment operating income	1,002	1,012	(10)	(1.0%)

	For the Years Ended December 31, 2007	2006	$ change	% change
	(in millions; as restated)			
Net revenues	$ 3,277	$ 3,225	$ 52	1.6%
Segment operating income	1,012	1,254	(242)	(19.3%)

2008 compared with 2007:
Net revenues increased $112 million (3.4%), due to higher net pricing (6.2 pp) and favorable mix (0.7 pp), partially offset by lower volume (3.5 pp). Net revenues increased due to higher input cost-driven pricing across our key categories, primarily spoonable and pourable salad dressings and *Kraft* macaroni and cheese dinners. In addition, net revenues growth was impacted by lower shipments in spoonable and pourable salad dressings, ready-to-eat desserts and barbecue sauce, which were partially offset by volume gains in *Kraft* macaroni and cheese dinners.

Segment operating income decreased $10 million (1.0%), due to higher input costs (primarily higher raw material costs), lower volume and higher Restructuring Program costs partially offset by higher net pricing, favorable mix, lower fixed manufacturing costs and lower marketing support costs.

2007 compared with 2006:
Net revenues increased $52 million (1.6%), due to favorable mix (2.1 pp) and higher net pricing (2.0 pp), partially offset by the impact of divestitures (1.9 pp) and lower volume (0.6 pp). Favorable mix reflected higher *Kraft* macaroni and cheese dinners base volume growth and the continued success of *Kraft Easy-Mac* cups. Higher net pricing was driven by input cost-driven pricing partially offset by increased promotional spending, primarily in spoonable salad dressings, *Kraft* macaroni and cheese dinners and dry packaged desserts. In addition, net revenues growth was impacted by lower shipments in spoonable and pourable salad dressings, dry packaged desserts and barbecue sauce, which were partially offset by volume gains in *Kraft* macaroni and cheese dinners.

Segment operating income decreased $242 million (19.3%), due primarily to the 2006 gain on the divested rice brand and assets, higher raw material costs, the impact of divestitures, lower volume and higher marketing support costs. These unfavorable variances were partially offset by higher pricing, lower manufacturing costs, lower Restructuring Program costs and favorable mix.

U.S. Snacks

	For the Years Ended December 31, 2008	2007	$ change	% change
	(in millions; 2007 restated)			
Net revenues	$ 5,025	$ 4,879	$ 146	3.0%
Segment operating income	530	607	(77)	(12.7%)

	For the Years Ended December 31, 2007	2006	$ change	% change
	(in millions; as restated)			
Net revenues	$ 4,879	$ 4,834	$ 45	0.9%
Segment operating income	607	444	163	36.7%

2008 compared with 2007:
Net revenues increased $146 million (3.0%), due to higher net pricing (8.4 pp) and the impact of our *LU* Biscuit acquisition (0.4 pp), partially offset by lower volume (3.1 pp), unfavorable mix (2.5 pp) and the impact of divestitures (0.2 pp). Biscuits net revenues increased, driven by higher input cost-driven pricing and lower promotional spending, partially offset by unfavorable mix and lower volume. Biscuits unfavorable volume/mix was driven by base business volume declines in *Wheat Thins*, *Cheese Nips* and *Chips Ahoy!*, partially offset by gains in *Oreo* cookies as well as new product introductions including *Kraft* macaroni and cheese crackers and *Nilla Cakesters*. Snack bars net revenues decreased, driven by volume declines in breakfast bars, primarily due to product pruning. Snack nuts net revenues decreased, driven by lower volume, partially offset by higher net pricing.

Segment operating income decreased $77 million (12.7%), due to higher input costs (including higher raw material costs), unfavorable mix, lower volume, higher Restructuring Program costs, higher marketing, administration and research costs, a 2007 gain on the divestiture of our hot cereal assets and trademarks and the impact of divestitures. These unfavorable variances were partially offset by higher net pricing, lower fixed manufacturing costs and lower marketing support costs.

2007 compared with 2006:
Net revenues increased $45 million (0.9%), due primarily to favorable mix (2.0 pp) and higher volume (1.6 pp), partially offset by the impact of divestitures (2.6 pp). Biscuits net revenues increased due to favorable mix and higher shipments in cookies, primarily *Chips Ahoy!* and the introduction of *Oreo Cakesters*, and crackers, primarily *Triscuits*, *Ritz* and *Wheat Thins*. Snack bars net revenues increased due to new product introductions and continued success of *South Beach Living* bars. Snack nuts net revenues increased due to favorable mix and new product introductions.

Segment operating income increased $163 million (36.7%), due primarily to 2006 asset impairment charges related to the divested pet snacks and hot cereal assets and trademarks, favorable mix, higher volume, lower input costs (net of higher raw material costs) and lower Restructuring Program costs. These favorable variances were partially offset by the impact of divestitures, higher marketing, administration and research costs, higher marketing support costs and higher fixed manufacturing costs.

Canada & N.A. Foodservice

	For the Years Ended December 31, 2008	2007	$ change	% change
	(in millions; 2007 restated)			
Net revenues	$ 4,294	$ 4,080	$ 214	5.2%
Segment operating income	438	404	34	8.4%

	For the Years Ended December 31, 2007	2006	$ change	% change
	(in millions; as restated)			
Net revenues	$ 4,080	$ 3,874	$ 206	5.3%
Segment operating income	404	426	(22)	(5.2%)

2008 compared with 2007:
Net revenues increased $214 million (5.2%), due primarily to higher net pricing (3.9 pp), favorable foreign currency (1.3 pp) and higher volume (1.2 pp), partially offset by unfavorable mix (0.9 pp) and the impact of divestitures (0.4 pp). In Canada, net revenues growth was primarily driven by volume gains across all retail businesses, favorable foreign currency and higher net pricing. In N.A. Foodservice, net revenues increased, primarily driven by higher input cost-driven pricing, partially offset by unfavorable volume/mix.

Segment operating income increased $34 million (8.4%), due primarily to higher net pricing, lower manufacturing costs, lower marketing, administration and research costs, higher volume and favorable foreign currency. These favorable variances were partially offset by higher raw material costs, higher Restructuring Program costs and higher marketing support costs.

2007 compared with 2006:
Net revenues increased $206 million (5.3%), due to higher net pricing (3.9 pp), favorable currency (3.0 pp) and favorable mix (0.3 pp), partially offset by the impact of divestitures (1.6 pp) and lower volume (0.3 pp). In Canada, net revenues growth was primarily driven by volume gains, across all retail business except for Convenient Meals, higher net pricing and favorable foreign currency. In N.A. Foodservice, net revenues increased, primarily driven by higher input cost-driven pricing and favorable foreign currency, partially offset by lower volume due to the discontinuation of lower margin product lines and unfavorable mix.

Segment operating income decreased $22 million (5.2%), due primarily to higher raw material costs, higher marketing, administration and research costs, higher Restructuring Program costs and the impact of divestitures. These unfavorable variances were partially offset by higher net pricing, lower manufacturing costs, favorable foreign currency, favorable mix and a 2006 loss on the divestiture of industrial coconut assets.

European Union

	For the Years Ended December 31,			
	2008	2007	$ change	% change
	(in millions; 2007 restated)			
Net revenues	$ 11,259	$ 7,951	$ 3,308	41.6%
Segment operating income	412	569	(157)	(27.6%)

	For the Years Ended December 31,			
	2007	2006	$ change	% change
	(in millions; as restated)			
Net revenues	$ 7,951	$ 6,669	$ 1,282	19.2%
Segment operating income	569	547	22	4.0%

2008 compared with 2007:
Net revenues increased $3,308 million (41.6%), due to the impact of our *LU* Biscuit acquisition (34.5 pp), favorable foreign currency (6.4 pp), higher net pricing (4.5 pp) and favorable mix (0.6 pp), partially offset by the impact of divestitures (3.3 pp) and lower volume (1.1 pp). Higher input cost-driven pricing was partially offset by higher promotional spending. Lower volume was driven by declines in coffee and cheese, partially offset by gains in chocolate.

Segment operating income decreased $157 million (27.6%), due primarily to higher input costs (primarily higher raw material costs), higher Restructuring Program costs, the net loss on the divestitures of several operations in Spain, asset impairment charges related to certain international intangible assets and the divestiture of our Nordic and Baltic snacks operation, higher marketing, administration and research costs, lower volume, higher fixed manufacturing costs and the impact of divestitures. These unfavorable variances were partially offset by higher net pricing, the impact of our *LU* Biscuit acquisition (net of associated integration costs), favorable mix, lower marketing support costs and favorable foreign currency.

2007 compared with 2006:
Net revenues increased $1,282 million (19.2%), due to favorable currency (10.5 pp), the impact of the UB acquisition (3.5 pp), higher volume (3.5 pp), favorable mix (1.9 pp) and the impact of divestitures (1.4 pp), partially offset by lower net pricing (1.6 pp). Volume related growth and favorable mix were driven by premium chocolate, due to new product introductions and promotional activities, and higher shipments in mainstream coffee and cheese. Lower net pricing reflects higher promotional spending in chocolate, cheese and coffee (primarily in Germany).

Segment operating income increased $22 million (4.0%), due primarily to higher volume, the 2006 asset impairment charge related to our *Tassimo* hot beverage system, lower manufacturing costs, lower Restructuring Program costs, favorable currency and the impact of the UB acquisition. These favorable variances were partially offset by the 2006 gain on the redemption of our UB investment, higher raw material costs, lower net pricing, higher marketing, administration and research costs and higher marketing support costs.

Developing Markets

	For the Years Ended December 31,			
	2008	2007	$ change	% change
	(in millions; 2007 restated)			
Net revenues	$ 6,986	$ 5,307	$ 1,679	31.6%
Segment operating income	585	474	111	23.4%

	For the Years Ended December 31,			
	2007	2006	$ change	% change
	(in millions; as restated)			
Net revenues	$ 5,307	$ 4,527	$ 780	17.2%
Segment operating income	474	403	71	17.6%

2008 compared with 2007:
Net revenues increased $1,679 million (31.6%), due to higher net pricing (11.8 pp), the impact of our *LU* Biscuit acquisition (10.1 pp), favorable mix (4.5 pp), favorable foreign currency (3.4 pp), favorable resolution of a Brazilian value added tax claim (1.3 pp) and higher volume (0.5 pp). In Eastern Europe, Middle East & Africa, net revenues increased, driven by higher net pricing across the region, volume growth in chocolate, biscuits and coffee categories, our *LU* Biscuit acquisition and favorable foreign currency. In Latin America, net revenues increased, driven by favorable foreign currency, higher net pricing, favorable resolution of a value added tax claim and favorable volume/mix in Brazil; higher net pricing and favorable mix in Argentina; and higher net pricing and favorable mix in Venezuela. In Asia Pacific, net revenues increased due primarily to our *LU* Biscuit acquisition, higher net pricing across the region and favorable foreign currency.

Segment operating income increased $111 million (23.4%) due to higher net pricing, favorable mix, favorable resolution of a Brazilian value added tax claim, favorable foreign currency, the impact of our *LU* Biscuit acquisition (net of associated integrations costs) and favorable volume. These favorable variances were partially offset by higher input costs (including higher raw material costs), higher marketing, administration and research costs, higher Restructuring Program costs, higher marketing support costs, 2008 asset impairment charges related to certain international intangible assets, a juice operation in Brazil and a cheese plant in Australia, higher fixed manufacturing costs and a 2007 gain on the divestiture of our sugar confectionery assets in Romania and related trademarks.

2007 compared with 2006:
Net revenues increased $780 million (17.2%), due primarily to favorable currency (5.5 pp), higher net pricing (5.1 pp), higher volume (4.0 pp), and favorable mix (2.5 pp). In Eastern Europe, Middle East & Africa, net revenues increased due to higher pricing and growth in coffee and chocolate in Russia, Romania and Ukraine, and in refreshment beverages and snacks for the Middle East & Africa region. In Latin America, net revenues increased due to higher pricing and favorable volume/mix, particularly in Brazil, Venezuela and Argentina. In Asia Pacific, net revenues increased due to volume growth in China and Southeast Asia.

Segment operating income increased $71 million (17.6%), due primarily to higher pricing, higher volume, lower Restructuring Program costs, favorable mix, favorable currency, a 2006 asset impairment charge related to intangible assets in Egypt and a 2007 gain on the divestiture of our sugar confectionery assets in Romania and related trademarks. These favorable variances were partially offset by higher input costs (including higher raw material costs), higher marketing, administration and research costs, higher marketing support costs and higher fixed manufacturing costs.

Critical Accounting Policies

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

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

We account for investments in which we exercise significant influence (20% – 50% ownership interest) under the equity method of accounting. We account for investments in which we have an ownership interest of less than 20% and do not exercise significant influence by the cost method of accounting. All intercompany transactions were eliminated.

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

Inventories:
Inventories are stated at the lower of cost or market. The last-in, first-out ("LIFO") method is used to cost a majority of domestic inventories. The cost of other inventories is principally determined by the average cost method. We used the LIFO method to determine the cost of 35% of inventories at December 31, 2008 and 37% of inventories at December 31, 2007. The stated LIFO amounts of inventories were $152 million lower at December 31, 2008 and $142 million lower at December 31, 2007 than the current cost of inventories. We also record inventory allowances for overstocked and obsolete inventories due to ingredient and packaging changes.

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

Goodwill and Intangible Assets:
SFAS No. 142, *Goodwill and Other Intangible Assets*, requires us to test goodwill and non-amortizable intangible assets at least annually for impairment. We have recognized goodwill in our reporting units, which are generally one level below our operating segments. We use a two step process to test goodwill at the reporting unit level. The first step involves a comparison of the estimated fair value of each reporting unit with its carrying value. Fair value is estimated using discounted cash flows of the reporting unit based on planned growth rates, estimates of discount rates and residual values. If the carrying value exceeds the fair value, the second step of the process is necessary. The second step measures the difference between the carrying value and implied fair value of goodwill. To test non-amortizable intangible assets for impairment, we compare the fair value of the intangible asset with its carrying value. Fair value of non-amortizable intangible assets is determined using our planned revenue growth rates, estimates of discount rates and royalty rates. If the carrying value exceeds fair value, the intangible asset is considered impaired and is reduced to fair value. Definite lived intangible assets are amortized over their estimated useful lives.

Effective October 1, 2007, we adopted a new accounting policy to perform our annual impairment review of goodwill and non-amortizable intangible assets as of October 1 of each year. The change in our testing date was made to align it with the revised timing of our annual strategic planning process implemented in 2007. Prior to that change, we performed our annual impairment reviews as of January 1 of each year.

During the fourth quarter of 2008, we completed the annual review of goodwill and non-amortizable intangible assets and recorded a $44 million charge for the impairment of intangible assets in the Netherlands, France and Puerto Rico. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans, industry and economic conditions. During our 2008 impairment review, it was determined that our Kraft Biscuit Europe reporting unit was the most sensitive to near-term changes in our discounted cash flow assumptions, as it contains a significant portion of the goodwill recorded upon our 2007 acquisition of *LU* Biscuit. In 2007, due to the change in our testing date, we completed two reviews of goodwill and non-amortizable intangible assets: during the first quarter as of January 1 and during the fourth quarter as of October 1. We found no impairments during these reviews of goodwill and non-amortizable intangible assets. During the first quarter of 2006, we completed our annual review of goodwill and non-amortizable intangible assets and recorded a $24 million charge for the impairment of intangible assets in Egypt and our hot cereal intangible assets in the U.S. These charges were included within asset impairment and exit costs.

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

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

Marketing Costs:
We promote our products with advertising, consumer incentives and trade promotions. These programs include, but are not limited to, discounts, coupons, rebates, in-store display incentives and volume-based incentives. We expense advertising costs either in the period the advertising first takes place or as incurred. Consumer incentive and trade promotion activities are recorded as a reduction to revenues based on amounts estimated as being due to customers and consumers at the end of a period. We base these estimates principally on historical utilization and redemption rates. For interim reporting purposes, advertising and consumer incentive expenses are charged to operations as a percentage of volume, based on estimated volume and related expense for the full year. We do not defer costs on our year-end consolidated balance sheet and all marketing costs are recorded as an expense in the year incurred.

Environmental Costs:
We are subject to laws and regulations relating to the protection of the environment. We accrue for environmental remediation obligations on an undiscounted basis when amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change. Recoveries of environmental remediation costs from third parties are recorded as assets when their receipt is deemed probable. As of December 31, 2008, our subsidiaries were involved in 67 active Superfund and other similar actions in the U.S. related to current operations and certain former or divested operations for which we retain liability.

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

Employee Benefit Plans:
In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"). SFAS No. 158 required us to measure plan assets and benefit obligations as of the balance sheet date beginning in 2008. We previously measured our non-U.S. pension plans (other than certain Canadian and French pension plans) at September 30 of each year. On December 31, 2008, we recorded an

after-tax decrease of $8 million to retained earnings using the 15-month approach to proportionally allocate the transition adjustment required upon adoption of the measurement provision of SFAS No. 158. The plan assets and benefit obligations of our pension plans and the benefit obligations of our postretirement plans are now all measured at year-end.

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

We recorded the following amounts in earnings for these employee benefit plans during the years ended December 31, 2008, 2007 and 2006:

	2008	2007 (in millions)	2006
U.S. pension plan cost	$ 160	$ 212	$ 289
Non-U.S. pension plan cost	82	123	155
Postretirement health care cost	254	260	271
Postemployment benefit plan cost	571	140	237
Employee savings plan cost	93	83	84
Multiemployer pension plan contributions	51	50	50
Net expense for employee benefit plans	$ 1,211	$ 868	$ 1,086

The 2008 net expense for employee benefit plans of $1,211 million increased by $343 million over the 2007 amount. The cost increase primarily relates to higher postemployment benefit plan costs related to the Restructuring Program, partially offset by lower pension plan costs, including lower amortization of the net loss from experience differences. The 2007 net expense for employee benefit plans of $868 million decreased by $218 million over the 2006 amount. The cost decrease primarily relates to lower U.S. pension plan costs, including lower amortization of the net loss from experience differences, and lower postemployment benefit plan costs related to the Restructuring Program.

We expect our 2009 net expense for employee benefit plans to decrease between $325 million and $375 million. The decrease is primarily due to lower forecasted postemployment benefit plan costs as we completed our five-year Restructuring Program in 2008. Offsetting these decreases, we expect that our net pension cost will increase by approximately $200 million in 2009. This increase is primarily due to negative asset returns on our plan assets in 2008 and plan assumption changes. For our U.S. qualified pension plans, we are not currently required to make any U.S. pension plan contributions under the Pension Protection Act in 2009. We plan to make contributions of approximately $220 million to our U.S. pension plans and approximately $170 million to our non-U.S. pension plans in 2009. Our actual contributions may differ from our planned contributions due to many factors, including changes in tax and other benefit laws, pension asset performance that differs significantly from the expected performance, or significant changes in interest rates. For certain employees hired in the U.S. after January 1, 2009, we have discontinued benefits under our U.S. pension plans, and we have replaced it with an enhanced company contribution to our employee savings plan. We do not expect this to have a significant impact on our 2009 pension plan cost.

Our 2009 health care cost trend rate assumption decreased to 7.00% from 7.50% for our U.S. postretirement plans and remained unchanged at 9.00% for our Canadian postretirement plans. We updated these rates based upon our most recent experience as well as our expectation for health care trend rates going forward. We anticipate that our health care cost trend rate assumption will be 5.00% for U.S. plans by 2014 and 6.00% for Canadian plans by 2015. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of December 31, 2008:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	13.0%	(10.7%)
Effect on postretirement benefit obligation	11.1%	(9.3%)

Our 2009 discount rate assumption remained unchanged at 6.10% for our U.S. postretirement plans and increased to 7.60% from 5.80% for our Canadian plans. Our 2009 discount rate decreased to 6.10% from 6.30% for our U.S. pension plans. We model these discount rates using a portfolio of high quality, fixed-income debt instruments with durations that match the expected future cash flows of the benefit obligations. Our 2009 discount rate assumption for our non-U.S. pension plans increased to 6.41% from 5.44%. We developed the discount rates for our non-U.S. plans from local bond indices that match local benefit obligations as closely as possible. Changes in our discount rates were primarily the result of changes in bond yields year-over-year.

Our 2009 expected rate of return on plan assets remained unchanged at 8.00% for our U.S. pension plans. We determine our expected rate of return on plan assets from the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class. We attempt to maintain our target asset allocation by rebalancing between equity and debt asset classes as we make contributions and monthly benefit payments. We intend to rebalance our plan portfolios by mid-2009 by making contributions and monthly benefit payments.

While we do not anticipate further changes in the 2009 assumptions for our U.S. pension and postretirement health care plans, as a sensitivity measure, a fifty-basis point change in our discount rate or a fifty-basis point change in the expected rate of return on plan assets would have the following effects, (reduction) / increase in cost, as of December 31, 2008:

	Fifty-Basis-Point	
	Increase	Decrease
	(in millions)	
Effect of change in discount rate on U.S. pension and postretirement health care costs	$ (63)	$ 64
Effect of change in expected rate of return on plan assets on U.S. pension costs	(30)	30

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

Financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. We formally document the nature of and relationships between the hedging instruments and hedged items, as well as our risk management objectives, strategies for undertaking the various hedge transactions and method of assessing hedge effectiveness. Additionally, for hedges of forecasted transactions, the significant characteristics and expected terms of the forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction will occur. If we deem it probable that the forecasted transaction will not occur, we recognize the gain or loss in earnings currently.

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

We record derivative financial instruments at fair value in our consolidated balance sheets as either current assets or current liabilities. Changes in the fair value of derivatives are recorded each period either in accumulated other comprehensive earnings / (losses) or in earnings, depending on whether a derivative is designated and effective as part of a hedge transaction and, if it is, the type of hedge transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive earnings / (losses) are reclassified to the consolidated statement of earnings in the periods in which operating results are affected by the hedged item. Cash flows from hedging instruments are classified in the same manner as the affected hedged item in the consolidated statements of cash flows.

Income Taxes:
We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Prior to our spin-off from Altria, we were included in Altria's consolidated federal income tax return. We generally computed income taxes on a separate company basis; however, some of our foreign tax credits, capital losses and other credits could not be used on a separate company basis. To the extent that Altria used our foreign tax credits and other tax benefits in its consolidated federal income tax return, we recognized the benefit in the calculation of our provision for income taxes. This benefit was approximately $270 million in 2007 (both through the date of our spin-off as well as post-spin carryback claims to pre-spin periods) and $195 million in 2006. We made payments to, or were reimbursed by, Altria for the tax effects resulting from being included in Altria's tax return. As of March 31, 2007, we are no longer a member of the Altria consolidated tax return group and we now file our own federal consolidated income tax returns.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for the Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). We adopted the provisions of FIN 48 effective 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.

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

Commodity Trends

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

We purchase our dairy raw material requirements, including milk and cheese, from independent third parties such as agricultural cooperatives and independent processors. The prices for milk and other dairy product purchases are substantially influenced by market supply and demand, as well as by government programs. Dairy commodity costs on average were higher in 2008 than in 2007. Significant cost items in our biscuit and grocery products are grains (wheat, corn and soybean oil). Grain costs have experienced significant increases as a result of burgeoning global demand for food, livestock feed and biofuels such as ethanol and biodiesel. Grain costs on average were higher in 2008 than in 2007. The most significant cost item in coffee products is green coffee beans, which are purchased on world markets. Green coffee bean prices are affected by the quality and availability of supply, changes in the value of the U.S. dollar in relation to certain other currencies and consumer demand for coffee products. Green coffee bean costs on average were higher in 2008 than in 2007. A significant cost item in chocolate confectionery products is cocoa, which is purchased on world markets, and the price of which is affected by the quality and availability of supply and changes in the value of the British pound and the U.S. dollar relative to certain other currencies. Cocoa bean and cocoa butter costs on average were higher in 2008 than in 2007.

During 2008, our aggregate commodity costs rose significantly as a result of higher dairy, coffee, cocoa, wheat, nuts, meat products, soybean oil and packaging costs. For 2008, our commodity costs were approximately $1.8 billion higher than 2007, following an increase of approximately $1.3 billion in 2007 compared to 2006. Overall, we expect commodity costs to moderately increase in 2009.

Liquidity

We believe that our cash from operations, our existing $4.5 billion revolving credit facility (which supports our commercial paper program), and our authorized long-term financing will provide sufficient liquidity to meet our working capital needs (including the remaining cash requirements of the Restructuring Program), planned capital expenditures, future contractual obligations, authorized share repurchases, and payment of our anticipated quarterly dividends. Despite recent market conditions, we continue to utilize our commercial paper program and international credit lines for daily funding requirements. We also use short-term intercompany loans from foreign subsidiaries to improve financial flexibility, which have been made more feasible by recent, temporary U.S. tax law changes. Overall, we do not foresee any impact to funding sources that would have a material effect on our liquidity.

Net Cash Provided by Operating Activities:
Operating activities provided net cash of $4.1 billion in 2008, $3.6 billion in 2007 and $3.7 billion in 2006. Operating cash flows increased in 2008 from 2007 primarily due to increased earnings and working capital improvements (mainly from lower income tax payments and lower inventory levels), partially offset by increased interest paid. The increase in operating cash flows was partially offset by the $305 million tax transfer from Altria in 2007 for the federal tax contingencies held by them, less the impact of federal reserves reversed due to the adoption of FIN 48. The transfer from Altria was reflected within other in our consolidated statement of cash flows.

The decrease in 2007 operating cash flows from 2006 was due primarily to the $405 million tax reimbursement from Altria in 2006 related to the closure of a tax audit and increased marketing, administration and research costs. This decrease in operating cash flows was partially offset by the $305 million tax transfer from Altria discussed above and lower working capital of $225 million primarily due to lower income tax payments.

We anticipate making U.S. pension contributions of approximately $220 million in 2009 and non-U.S. pension contributions of approximately $170 million in 2009. We expect to fund these contributions from operations.

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

Net cash used in investing activities was $1.3 billion during 2008, $8.4 billion during 2007 and $116 million during 2006. The decrease in cash used in investing activities in 2008 primarily related to lower payments for acquisitions, partially offset by lower proceeds from divestitures and higher capital expenditures. During 2008, we paid Groupe Danone S.A. $99 million to refund excess cash received in the acquisition of *LU* Biscuit. Additionally, we received $153 million in net proceeds on divestitures, primarily related to a Nordic and Baltic snacks operation and four operations in Spain, and we disbursed $56 million for transaction fees related to the split-off of the *Post* cereals business.

On November 30, 2007, we acquired *LU* Biscuit for €5.1 billion (approximately $7.6 billion) in cash. Additionally, during 2007, we received proceeds of $216 million from the divestitures of our flavored water and juice brand assets and related trademarks, our sugar confectionery assets in Romania and related trademarks and our hot cereal assets and trademarks. During 2006, we received proceeds of $946 million from the divestitures of our rice brand and assets, pet snacks brand and assets, industrial coconut assets, certain Canadian assets, a U.S. biscuit brand and a U.S. coffee plant.

Capital expenditures, which were funded by operating activities, were $1.4 billion in 2008 and $1.2 billion in 2007 and 2006. The 2008 capital expenditures were primarily used to modernize manufacturing facilities, implement the Restructuring Program, and support new product and productivity initiatives. We expect 2009 capital expenditures to be in line with 2008 expenditures, including capital expenditures required for systems investments. We expect to fund these expenditures from operations.

Net Cash (Used in) / Provided by Financing Activities:
Net cash used in financing activities was $2.1 billion during 2008 and $3.7 billion during 2006, compared with $5.1 billion provided during 2007. The net cash used in financing activities in 2008 primarily related to $5.9 billion in payments made on the bridge facility used to fund our *LU* Biscuit acquisition, $1.7 billion in dividends paid, $777 million in Common Stock share

repurchases and $795 million in long-term debt repayments, primarily related to debt that matured on October 1, 2008, partially offset by $6.9 billion in proceeds from our long-term debt offerings. The net cash provided by financing activities in 2007 was primarily due to $6.4 billion in proceeds from long-term debt offerings and net outstanding borrowings of $5.5 billion under the bridge facility used to fund our *LU* Biscuit acquisition, partially offset by $3.7 billion in Common Stock share repurchases, $1.6 billion in dividends paid and a $1.5 billion repayment of long-term debt that matured. The net cash used in financing activities in 2006 primarily related to $1.6 billion in dividends paid, $1.3 billion in long-term debt repaid and $1.3 billion in Common Stock share repurchases.

In November 2009, $750 million of our long-term debt matures. We expect to fund the repayment through the issuance of commercial paper or long-term debt.

Borrowing Arrangements:
We maintain a revolving credit facility that we have historically used for general corporate purposes and to support our commercial paper issuances. The $4.5 billion, multi-year revolving credit facility expires in April 2010. No amounts have been drawn on this facility. In October 2008, one of the syndicate banks under our credit facility, Lehman Commercial Paper, Inc., filed for bankruptcy protection. Lehman's commitment under our credit facility is approximately $136 million. We do not expect to replace them, and our capacity under our credit facility will accordingly be reduced to approximately $4.4 billion. We do not expect this to have a current or future effect on our liquidity.

We must maintain a net worth of at least $20.0 billion under the terms of our revolving credit facility. At December 31, 2008, our net worth was $22.2 billion. We expect to continue to meet this covenant. The revolving credit facility has no other financial covenants, credit rating triggers or provisions that could require us to post collateral as security.

In addition to the above, some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to $1.7 billion at December 31, 2008. Borrowings on these lines amounted to $291 million at December 31, 2008 and $250 million at December 31, 2007.

At December 31, 2007, we had borrowed €3.8 billion (approximately $5.5 billion) under the 364-day bridge facility agreement we used to acquire *LU* Biscuit ("*LU* Biscuit Bridge Facility"). Under the terms of the credit agreement, we were required to repay borrowings with the net cash proceeds from debt offerings having a maturity of greater than one year. As such, we repaid the €3.8 billion (approximately $5.9 billion at the time of repayments) with proceeds from our March 20, 2008 and May 22, 2008 debt issuances discussed below. Upon repayment, this facility was terminated.

Debt:
Our total debt was $20.3 billion at December 31, 2008 and $21.0 billion at December 31, 2007. Our debt-to-capitalization ratio was 0.48 at December 31, 2008 and 0.43 at December 31, 2007.

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

On October 1, 2008, we repaid $700 million in notes. This repayment was primarily financed from commercial paper issuances.

In December 2007, we filed an automatic shelf registration on Form S-3 with the SEC. As a well-known seasoned issuer, we are able to register new debt securities in amounts authorized by our Board of Directors through December 2010. Our Board of Directors authorized $5.0 billion in long-term financing, which was in addition to the €5.3 billion authorized for the *LU* Biscuit acquisition.

In December 2007, we issued $3.0 billion of senior unsecured notes under the shelf registration. We used the net proceeds from the offering ($2,966 million) for general corporate purposes, including the repayment of outstanding commercial paper and a portion of our *LU* Biscuit Bridge Facility.

In August 2007, we issued $3.5 billion of senior unsecured notes, which was the remainder of the capacity under our former Form S-3 shelf registration statement on file with the SEC. We used the net proceeds from the offering ($3,462 million) for general corporate purposes, including the repayment of outstanding commercial paper.

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

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

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

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. At December 31, 2008, we had approximately $3.0 billion remaining in long-term financing authority from our Board of Directors.

Credit Ratings:
At December 31, 2008, our debt ratings by major credit rating agencies were:

	Short - term	Long - term
Moody's	P-2	Baa2
Standard & Poor's	A-2	BBB+
Fitch	F2	BBB

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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

Guarantees:
As discussed in Note 13, *Commitments and Contingencies*, we have third-party guarantees 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 December 31, 2008, the maximum potential payments under our third-party guarantees were $43 million, of which $8 million have no specified expiration dates. Substantially all of the remainder expire at various times through 2018. The carrying amounts of these guarantees were $38 million on our consolidated balance sheet at December 31, 2008.

In addition, at December 31, 2008, we were contingently liable for $186 million of guarantees related to our own performance. These include letters of credit related to dairy commodity purchases and guarantees related to the payment of custom duties and taxes, and other letters of credit.

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

Aggregate Contractual Obligations:

The following table summarizes our contractual obligations at December 31, 2008:

	Payments Due				
	Total	2009	2010-11 (in millions)	2012-13	2014 and Thereafter
Long-term debt [(1)]	$ 19,393	$ 757	$ 2,702	$ 5,845	$ 10,089
Interest expense [(2)]	11,801	1,204	2,259	1,672	6,666
Capital leases [(3)]	83	13	20	15	35
Operating leases [(4)]	796	250	335	140	71
Purchase obligations: [(5)]					
Inventory and production costs	5,695	4,324	975	391	5
Other	913	769	137	6	1
	6,608	5,093	1,112	397	6
Other long-term liabilities [(6)]	2,372	224	518	469	1,161
	$ 41,053	$ 7,541	$ 6,946	$ 8,538	$ 18,028

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

(2) Amounts represent the expected cash payments of our interest expense on our long-term debt. Interest calculated on our variable rate debt was forecasted using a LIBOR rate forward curve analysis as of December 31, 2008. Interest calculated on our euro notes was forecasted using the euro to U.S. dollar exchange rate as of December 31, 2008. An insignificant amount of interest expense was excluded from the table for a portion of our foreign debt due to the complexities involved in forecasting expected interest payments.

(3) Amounts represent the expected cash payments of our capital leases, including the expected cash payments of interest expense of approximately $22 million on our capital leases.

(4) Operating leases represent the minimum rental commitments under non-cancelable operating leases.

(5) Purchase obligations for inventory and production costs (such as raw materials, indirect materials and supplies, packaging, co-manufacturing arrangements, storage and distribution) are commitments for projected needs to be utilized in the normal course of business. Other purchase obligations include commitments for marketing, advertising, capital expenditures, information technology and professional services. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice (usually 30 days). Any amounts reflected on the consolidated balance sheet as accounts payable and accrued liabilities are excluded from the table above.

(6) Other long-term liabilities primarily consist of estimated future benefit payments for our postretirement health care plans through December 31, 2018 of $2,290 million. We are unable to reliably estimate the timing of the payments beyond 2018; as such, they are excluded from the above table. In addition, the following long-term liabilities included on the consolidated balance sheet are excluded from the table above: accrued pension costs, income taxes, minority interest, insurance accruals and other accruals. We are unable to reliably estimate the timing of the payments (or contributions beyond 2009, in the case of accrued pension costs) for these items. We currently expect to make approximately $390 million in contributions to our pension plans in 2009. We also expect that our net pension cost will increase by approximately $200 million to approximately $440 million in 2009. As of December 31, 2008, our total liability for income taxes, including uncertain tax positions and associated accrued interest and penalties, was $1,075 million. We expect to pay approximately $104 million in the next 12 months. While years 2000 through 2003 are currently under examination by the IRS, we are not able to reasonably estimate the timing of future cash flows beyond 12 months due to uncertainties in the timing of this and other tax audit outcomes.

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 our current program at our discretion. The total repurchases under these programs were 25.3 million shares for $777 million in 2008, 110.1 million shares for $3,640 million in 2007 and 38.7 million shares for $1,250 million in 2006. We made these repurchases of our Common Stock in open market transactions.

Share Repurchase Program Authorized by the Board of Directors	$5.0 billion	$2.0 billion	$1.5 billion
Authorized / completed period for repurchase	April 2007 - March 2009	March 2006 - March 2007	December 2004 - March 2006
Aggregate cost of shares repurchased in 2008 (millions of shares)	$777 million (25.3 shares)		
Aggregate cost of shares repurchased in 2007 (millions of shares)	$3.5 billion (105.6 shares)	$140 million (4.5 shares)	
Aggregate cost of shares repurchased in 2006 (millions of shares)		$1.0 billion (30.2 shares)	$250 million (8.5 shares)
Aggregate cost of shares repurchased life-to-date under program (millions of shares)	$4.3 billion (130.9 shares)	$1.1 billion (34.7 shares)	$1.5 billion (49.1 shares)

As of December 31, 2008, we had $723 million remaining under our $5.0 billion share repurchase authority. Given the present environment, we do not expect to make further share repurchases before the current program authority expires on March 30, 2009.

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

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

In January 2008, we granted 1.4 million shares of stock in connection with our long-term incentive plan. The market value per share was $32.26 on the date of grant. The unvested shares have no voting rights and do not pay dividends.

In February 2008, as part of our annual incentive program, we issued 3.4 million shares of restricted and deferred stock to eligible U.S. and non-U.S. employees. The market value per restricted or deferred share was $29.49 on the date of grant. Also, as part of our annual incentive program, we granted 13.5 million stock options to eligible U.S. and non-U.S. employees at an exercise price of $29.49.

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

At December 31, 2008, the number of shares to be issued upon exercise of outstanding stock options, vesting of non-U.S. deferred shares and vesting of long-term incentive plan shares was 44.5 million or 3.0% of total shares outstanding.

Our Board of Directors approved a stock option grant to our Chief Executive Officer on May 3, 2007, to recognize her election as our Chairman. She received 300,000 stock options under the 2005 Performance Incentive Plan, which vest under varying market and service conditions and expire ten years after the grant date.

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

Upon our spin-off, Altria stock awards were modified through the issuance of Kraft 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 after our spin-off from Altria was not greater than the aggregate intrinsic value immediately prior to it. Holders of Altria restricted stock or stock rights awarded before January 31, 2007, retained their existing awards and received restricted stock or stock rights in Kraft 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 had announced the spin-off at that time. We reimbursed Altria $179 million for net settlement of the employee stock awards. We determined the fair value of the stock options using the Black-Scholes option valuation model, and adjusted the fair value of the restricted stock and stock rights by the value of projected forfeitures.

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

Dividends:
We paid dividends of $1,663 million in 2008 and $1,638 million in 2007. The 1.5% increase reflects a higher dividend rate in 2008, partially offset by a lower number of shares outstanding because of share repurchases and the split-off of the *Post* cereals business. During the third quarter of 2008, our Board of Directors approved a 7.4% increase in the current quarterly dividend rate to $0.29 per share on our Common Stock. As a result, the present annualized dividend rate is $1.16 per common share. The declaration of dividends is subject to the discretion of our Board of Directors and depends on various factors, including our net earnings, financial condition, cash requirements, future prospects and other factors that our Board of Directors deems relevant to its analysis and decision making.

2009 Outlook

We now expect 2009 diluted EPS of $1.88 versus a previous expectation of at least $2.00. This change reflects a greater-than-anticipated negative impact from currency and pension costs, significantly offset by improved business performance.

Our 2009 guidance reflects expectations of approximately $0.16 in negative impact from currency versus the prior year, $0.08 in higher pension costs and $0.03 in year-over-year dilution from the exit of the *Post* cereals business. In addition, we expect a $0.09 impact from spending on cost savings initiatives in 2009 and a tax rate of approximately 31.5 percent, up from 2008, which benefited from several discrete items.

The factors described in Item 1A, *Risk Factors*, represent continuing risks to these forecasts.

New Accounting Standards

See Note 1, *Summary of Significant Accounting Policies*, and Note 10, *Stock Plans*, to the consolidated financial statements for a discussion of new accounting standards.

Contingencies

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

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

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

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

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

We made the VAR estimates assuming normal market conditions, using a 95% confidence interval. We used a "variance / co-variance" model to determine the observed interrelationships between movements in interest rates and various currencies. These interrelationships were determined by observing interest rate and forward currency rate movements over the prior quarter for the calculation of VAR amounts at December 31, 2008 and 2007, and over each of the four prior quarters for the calculation of average VAR amounts during each year. The values of foreign currency and commodity options do not change on a one-to-one basis with the underlying currency or commodity, and were valued accordingly in the VAR computation.

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

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

	Pre-Tax Earnings Impact				Fair Value Impact			
	At 12/31/07	Average	High	Low	At 12/31/07	Average	High	Low
Instruments sensitive to:								
Interest rates					$ 94	$ 49	$ 94	$ 23
Foreign currency rates	$ 17	$ 22	$ 28	$ 17				
Commodity prices	27	19	27	15				

This VAR computation is a risk analysis tool designed to statistically estimate the maximum probable daily loss from adverse movements in interest rates, foreign currency rates and commodity prices under normal market conditions. The computation does not represent actual losses in fair value or earnings to be incurred by Kraft, nor does it consider the effect of favorable changes in market rates. We cannot predict actual future movements in such market rates and do not present these VAR results to be indicative of future movements in such market rates or to be representative of any actual impact that future changes in market rates may have on our future financial results.

Item 8. Financial Statements and Supplementary Data.

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

	2008	2007	2006
Net revenues	$ 42,201	$ 36,134	$ 33,256
Cost of sales	28,186	24,057	21,344
Gross profit	14,015	12,077	11,912
Marketing, administration and research costs	9,059	7,673	7,120
Asset impairment and exit costs	1,024	440	999
Gain on redemption of United Biscuits investment	–	–	(251)
Losses / (gains) on divestitures, net	92	(15)	(117)
Amortization of intangibles	23	13	7
Operating income	3,817	3,966	4,154
Interest and other expense, net	1,240	604	510
Earnings from continuing operations before income taxes	2,577	3,362	3,644
Provision for income taxes	728	1,002	816
Earnings from continuing operations	1,849	2,360	2,828
Earnings and gain from discontinued operations, net of income taxes (Note 2)	1,052	230	232
Net earnings	$ 2,901	$ 2,590	$ 3,060
Per share data:			
Basic earnings per share:			
Continuing operations	$ 1.24	$ 1.50	$ 1.72
Discontinued operations	0.71	0.14	0.14
Net earnings	$ 1.95	$ 1.64	$ 1.86
Diluted earnings per share:			
Continuing operations	$ 1.22	$ 1.48	$ 1.71
Discontinued operations	0.70	0.14	0.14
Net earnings	$ 1.92	$ 1.62	$ 1.85
Dividends declared	$ 1.12	$ 1.04	$ 0.96

See notes to consolidated financial statements.

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

	2008	2007
ASSETS		
Cash and cash equivalents	$ 1,244	$ 567
Receivables (net of allowances of $129 in 2008 and $94 in 2007)	4,704	5,197
Inventories, net	3,729	4,096
Deferred income taxes	861	575
Other current assets	828	302
Total current assets	11,366	10,737
Property, plant and equipment, net	9,917	10,778
Goodwill	27,581	31,193
Intangible assets, net	12,926	12,200
Prepaid pension assets	56	1,648
Other assets	1,232	1,437
TOTAL ASSETS	$ 63,078	$ 67,993
LIABILITIES		
Short-term borrowings	$ 897	$ 7,385
Current portion of long-term debt	765	722
Accounts payable	3,373	4,065
Accrued marketing	1,803	1,833
Accrued employment costs	951	913
Other current liabilities	3,255	2,168
Total current liabilities	11,044	17,086
Long-term debt	18,589	12,902
Deferred income taxes	4,064	4,876
Accrued pension costs	2,367	810
Accrued postretirement health care costs	2,678	2,846
Other liabilities	2,136	2,178
TOTAL LIABILITIES	40,878	40,698
Contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Common Stock, no par value (1,735,000,000 shares issued in 2008 and 2007)	–	–
Additional paid-in capital	23,563	23,445
Retained earnings	13,345	12,209
Accumulated other comprehensive losses	(5,994)	(1,835)
Treasury stock, at cost	(8,714)	(6,524)
TOTAL SHAREHOLDERS' EQUITY	22,200	27,295
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 63,078	$ 67,993

See notes to consolidated financial statements.

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Losses) / Earnings	Treasury Stock	Total Shareholders' 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
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)
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	–	–	2,590	–	–	2,590
Other comprehensive earnings, net of income taxes	–	–	–	1,234	–	1,234
Total comprehensive earnings						3,824
Adoption of FASB Interpretation No. 48 (Note 1)	–	–	213	–	–	213
Exercise of stock options and issuance of other stock awards	–	33	(79)	–	293	247
Net settlement of employee stock awards with Altria Group, Inc. (Note 10)	–	(179)	–	–	–	(179)
Cash dividends declared ($1.04 per share)	–	–	(1,643)	–	–	(1,643)
Common Stock repurchased	–	–	–	–	(3,687)	(3,687)
Other	–	(35)	–	–	–	(35)
Balances at December 31, 2007	$ –	$ 23,445	$ 12,209	$ (1,835)	$ (6,524)	$ 27,295
Comprehensive earnings / (losses):						
Net earnings	–	–	2,901	–	–	2,901
Other comprehensive losses, net of income taxes	–	–	–	(4,159)	–	(4,159)
Total comprehensive losses						(1,258)
Adoption of FASB Statement No. 158, net of income taxes (Note 1)	–	–	(8)	–	–	(8)
Exercise of stock options and issuance of other stock awards	–	118	(81)	–	231	268
Cash dividends declared ($1.12 per share)	–	–	(1,676)	–	–	(1,676)
Common Stock repurchased	–	–	–	–	(777)	(777)
Common Stock tendered (Note 2)	–	–	–	–	(1,644)	(1,644)
Balances at December 31, 2008	$ –	$ 23,563	$ 13,345	$ (5,994)	$ (8,714)	$ 22,200

See notes to consolidated financial statements.

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

	2008	2007	2006
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES			
Net earnings	$ 2,901	$ 2,590	$ 3,060
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	986	886	891
Stock-based compensation expense	178	136	142
Deferred income tax benefit	(262)	(436)	(168)
Gain on redemption of United Biscuits investment	–	–	(251)
Losses / (gains) on divestitures, net	92	(15)	(117)
Gain on discontinued operations (Note 2)	(937)	–	–
Asset impairment and exit costs, net of cash paid	731	209	793
Change in assets and liabilities, excluding the effects of acquisitions and divestitures:			
Receivables, net	(39)	(268)	(200)
Inventories, net	(130)	(191)	(149)
Accounts payable	29	241	256
Amounts due to Altria Group, Inc. and affiliates	–	(93)	(133)
Other current assets	(535)	(144)	(61)
Other current liabilities	1,012	152	(241)
Change in pension assets and postretirement liabilities, net	19	81	(128)
Other	96	423	26
Net cash provided by operating activities	4,141	3,571	3,720
CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES			
Capital expenditures	(1,367)	(1,241)	(1,169)
Acquisitions, net of cash received	(99)	(7,437)	–
Proceeds from divestitures, net of disbursements	97	216	946
Other	49	46	107
Net cash used in by investing activities	(1,320)	(8,416)	(116)
CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES			
Net (repayment) / issuance of short-term borrowings	(5,912)	5,649	343
Long-term debt proceeds	7,018	6,495	69
Long-term debt repaid	(795)	(1,472)	(1,324)
(Decrease) / increase in amounts due to Altria Group, Inc. and affiliates	–	(149)	62
Repurchase of Common Stock	(777)	(3,708)	(1,254)
Dividends paid	(1,663)	(1,638)	(1,562)
Other	72	(56)	(54)
Net cash (used in) / provided by financing activities	(2,057)	5,121	(3,720)
Effect of exchange rate changes on cash and cash equivalents	(87)	52	39
Cash and cash equivalents:			
Increase / (decrease)	677	328	(77)
Balance at beginning of period	567	239	316
Balance at end of period	$ 1,244	$ 567	$ 239
Cash paid:			
Interest	$ 968	$ 628	$ 628
Income taxes	$ 964	$ 1,366	$ 1,560

See notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies:

Nature of Operations and Basis of Presentation:
Kraft Foods Inc. was incorporated in 2000 in the Commonwealth of Virginia. Kraft Foods Inc., through its subsidiaries (Kraft Foods Inc. and subsidiaries are hereinafter referred to as “Kraft,” “we,” “us” and “our”), manufactures and markets packaged foods and beverages in approximately 150 countries.

Prior to June 13, 2001, Kraft was a wholly owned subsidiary of Altria Group, Inc. (“Altria”). On June 13, 2001, we completed an initial public offering of 280,000,000 shares of our Class A common stock (“Common Stock”) at a price of $31.00 per share.
In the first quarter of 2007, Altria spun off its remaining 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.

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

We account for investments in which we exercise significant influence (20%-50% ownership interest) under the equity method of accounting. We account for investments in which we have an ownership interest of less than 20% and do not exercise significant influence by the cost method of accounting. Minority interest in subsidiaries consists of the equity interest of minority investors in consolidated subsidiaries of Kraft. Kraft’s consolidated minority interest expense, net of taxes, was $9 million in 2008, $3 million in 2007 and $5 million in 2006. All intercompany transactions were eliminated.

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

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

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

Inventories:
Inventories are stated at the lower of cost or market. The last-in, first-out (“LIFO”) method is used to cost a majority of domestic inventories. The cost of other inventories is principally determined by the average cost method. We also record inventory allowances for overstocked and obsolete inventories due to ingredient and packaging changes.

Long-Lived Assets:
Property, plant and equipment are stated at historical cost and depreciated by the straight-line method over the estimated useful lives of the assets. Machinery and equipment are depreciated over periods ranging from 3 to 20 years and buildings and building improvements over periods up to 40 years.

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

Software Costs:
We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use. Capitalized software costs are included in property, plant and equipment and amortized on a straight-line basis over the estimated useful lives of the software, which do not exceed seven years.

Goodwill and Intangible Assets:
Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, requires us to test goodwill and non-amortizable intangible assets at least annually for impairment. We have recognized goodwill in our reporting units, which are generally one level below our operating segments. We use a two step process to test goodwill at the reporting unit level. The first step involves a comparison of the estimated fair value of each reporting unit with its carrying value. Fair value is estimated using discounted cash flows of the reporting unit based on planned growth rates, estimates of discount rates and residual values. If the carrying value exceeds the fair value, the second step of the process is necessary. The second step measures the difference between the carrying value and implied fair value of goodwill. To test non-amortizable intangible assets for impairment, we compare the fair value of the intangible asset with its carrying value. Fair value of non-amortizable intangible assets is determined using our planned revenue growth rates, estimates of discount rates and royalty rates. If the carrying value exceeds fair value, the intangible asset is considered impaired and is reduced to fair value. Definite lived intangible assets are amortized over their estimated useful lives.

Effective October 1, 2007, we adopted a new accounting policy to perform our annual impairment review of goodwill and non-amortizable intangible assets as of October 1 of each year. The change in our testing date was made to align it with the revised timing of our annual strategic planning process implemented in 2007. Prior to that change, we performed our annual impairment reviews as of January 1 of each year.

During the fourth quarter of 2008, we completed the annual review of goodwill and non-amortizable intangible assets and recorded a $44 million charge for the impairment of intangible assets in the Netherlands, France and Puerto Rico. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans, industry and economic conditions. During our 2008 impairment review, it was determined that our Kraft Biscuit Europe reporting unit was the most sensitive to near-term changes in our discounted cash flow assumptions, as it contains a significant portion of the goodwill recorded upon our 2007 acquisition of the global *LU* biscuit business of Groupe Danone S.A. ("*LU* Biscuit"). In 2007, due to the change in our testing date, we completed two reviews of goodwill and non-amortizable intangible assets: during the first quarter as of January 1 and during the fourth quarter as of October 1. We found no impairments during these reviews of goodwill and non-amortizable intangible assets. During the first quarter of 2006, we completed our annual review of goodwill and non-amortizable intangible assets and recorded a $24 million charge for the impairment of intangible assets in Egypt and our hot cereal intangible assets in the U.S. These charges were included within asset impairment and exit costs.

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

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

Marketing, Administration and Research Costs:
Marketing – We promote our products with advertising, consumer incentives and trade promotions. These programs include, but are not limited to, discounts, coupons, rebates, in-store display incentives and volume-based incentives. We expense advertising costs either in the period the advertising first takes place or as incurred. Consumer incentive and trade promotion activities are recorded as a reduction to revenues based on amounts estimated as being due to customers and consumers at the end of a period. We base these estimates principally on historical utilization and redemption rates. For interim reporting purposes, advertising and consumer incentive expenses are charged to operations as a percentage of volume, based on estimated volume and related expense for the full year. We do not defer costs on our year-end consolidated balance sheet and all marketing costs are recorded as an expense in the year incurred. Advertising expense was $1,639 million in 2008, $1,471 million in 2007 and $1,308 million in 2006.

Research – We expense costs as incurred for product research and development. Research and development expense was $499 million in 2008, $442 million in 2007 and $414 million in 2006.

Environmental Costs:
We are subject to laws and regulations relating to the protection of the environment. We accrue for environmental remediation obligations on an undiscounted basis when amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change. Recoveries of environmental remediation costs from third parties are recorded as assets when their receipt is deemed probable. As of December 31, 2008, our subsidiaries were involved in 67 active Superfund and other similar actions in the U.S. related to current operations and certain former or divested operations for which we retain liability.

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

Employee Benefit Plans:
In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans* (“SFAS No. 158”). SFAS No. 158 requires us to measure plan assets and benefit obligations as of the balance sheet date beginning in 2008. We previously measured our non-U.S. pension plans (other than certain Canadian and French pension plans) at September 30 of each year. On December 31, 2008, we recorded an after-tax decrease of $8 million to retained earnings using the 15-month approach to proportionally allocate the transition adjustment required upon adoption of the measurement provision of SFAS No. 158. The plan assets and benefit obligations of our pension plans and the benefit obligations of our postretirement plans are now all measured at year-end.

We provide a range of benefits to our employees and retired employees. These include pension plans, postretirement health care benefits and postemployment benefits, consisting primarily of severance. We provide pension coverage for certain employees of our non-U.S. subsidiaries through separate plans. Local statutory requirements govern many of these plans. For certain employees hired in the U.S. after January 1, 2009, we have discontinued benefits under our U.S. pension plans, and we have replaced it with an enhanced company contribution to our employee savings plan. Our U.S. and Canadian subsidiaries provide health care and other benefits to most retired employees. Local government plans generally cover health care benefits for retirees outside the U.S. and Canada. Our postemployment benefit plans cover most salaried and certain hourly employees. The cost of these plans is charged to expense over the working life of the covered employees.

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

Financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. We formally document the nature of and relationships between the hedging instruments and hedged items, as well as our risk management objectives, strategies for undertaking the various hedge transactions and method of assessing hedge effectiveness. Additionally, for hedges of forecasted transactions, the significant characteristics and expected terms of the forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction will occur. If we deem it probable that the forecasted transaction will not occur, we recognize the gain or loss in earnings currently.

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

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

Commodity cash flow hedges – We are exposed to price risk related to forecasted purchases of certain commodities that we primarily use as raw materials. Accordingly, we use commodity forward contracts as cash flow hedges, primarily for meat, coffee, dairy, sugar, cocoa and wheat. Commodity forward contracts generally qualify for the normal purchase exception under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, ("SFAS No. 133") and are, therefore, not subject to its provisions. We use commodity futures and options to hedge the price of certain input costs, including dairy, coffee, cocoa, wheat, corn products, soybean oils, meat products, sugar, natural gas and heating oil. Some of these derivative instruments are highly effective and qualify for hedge accounting treatment under SFAS No. 133. We also sell commodity futures to unprice future purchase commitments, and we occasionally use related futures to cross-hedge a commodity exposure. We are not a party to leveraged derivatives and, by policy, do not use financial instruments for speculative purposes.

For those derivative instruments that are highly effective and qualify for hedge accounting treatment under SFAS No. 133, we defer the effective portion of unrealized gains and losses on commodity futures and option contracts as a component of accumulated other comprehensive earnings / (losses). We recognize the deferred portion as a component of cost of sales when the related inventory is sold. Ineffectiveness is directly recorded as a component of cost of sales. For the derivative instruments that we considered economic hedges but did not designate for hedge accounting treatment under SFAS No. 133, we recognize gains and losses directly as a component of cost of sales.

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

For those derivative instruments that are highly effective and qualify for hedge accounting treatment under SFAS No. 133, we defer the effective portion of unrealized gains and losses associated with forward, swap and option contracts as a component of accumulated other comprehensive earnings / (losses) until the underlying hedged transactions are reported in earnings. We recognize the deferred portion as a component of cost of sales when the related inventory is sold or as foreign currency translation gain or loss for our hedges of intercompany loans when the payments are made. For those derivative instruments that we consider economic hedges but do not designate for hedge accounting treatment under SFAS No. 133, we recognize gains and losses directly as a component of cost of sales or foreign currency translation loss, depending on the nature of the underlying transaction.

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

Guarantees:
We account for guarantees in accordance with FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, ("FIN 45"). FIN 45 requires us to disclose certain guarantees and to recognize a liability for the fair value of the obligation of qualifying guarantee activities. See Note 13, *Commitments and Contingencies* for a further discussion of guarantees.

Income Taxes:
We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Prior to our spin-off from Altria, we were included in Altria's consolidated federal income tax return. We generally computed income taxes on a separate company basis; however, some of our foreign tax credits, capital losses and other credits could not be used on a separate company basis. To the extent that Altria used our foreign tax credits and other tax benefits in its consolidated federal income tax return, we recognized the benefit in the calculation of our provision for income taxes. This benefit was approximately $270 million in 2007 (both through the date of our spin-off from Altria as well as post-spin carryback claims to pre-spin periods) and $195 million in 2006. We made payments to, or were reimbursed by, Altria for the tax effects resulting from being included in Altria's tax return. As of March 31, 2007, we are no longer a member of the Altria consolidated tax return group, and we now file our own federal consolidated income tax returns. Altria also previously carried our federal tax contingencies on its balance sheet and reported them in its financial statements. As a result of the spin-off, Altria transferred our federal tax contingencies of $375 million to our balance sheet and related interest income of $77 million in 2007. Additionally, during 2007, Altria paid us $305 million for the federal tax contingencies held by them, less the impact of federal reserves reversed due to the adoption of FASB Interpretation No. 48. This amount is reflected as a component of other within the net cash provided by operating activities section of the consolidated statement of cash flows.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for the Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). We adopted the provisions of FIN 48 effective 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.

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

Reclassification:
We reclassified dividends payable and income taxes in the consolidated balance sheet at December 31, 2007 from separate line items into other current liabilities to conform with the current year's presentation. We also reclassified income taxes and other working capital items in the consolidated statements of cash flows for the years ended December 31, 2007 and 2006 from separate line items into other current assets and other current liabilities to conform with the current year's presentation. In addition, we reclassified stock-based compensation expense in the consolidated statements of cash flows for the years ended December 31, 2007 and 2006 from other operating activities to a separate line item to conform with the current year's presentation.

New Accounting Pronouncements:
In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, ("SFAS No. 157") as amended in February 2008 by FASB Staff Position ("FSP") FAS 157-2, *Effective Date of FASB Statement No. 157*, ("FSP FAS 157-2"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP FAS 157-2 defers the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. As such, we partially adopted the provisions of SFAS No. 157 effective January 1, 2008. The partial adoption of this statement did not have a material impact on our financial statements. We expect to adopt the remaining provisions of SFAS No. 157 beginning in 2009. We expect this adoption to impact the way in which we calculate fair value for our annual impairment review of goodwill and non-amortizable intangible assets, and when conditions exist that require us to calculate the fair value of long-lived assets; however, we do not expect this adoption to have a material impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. The provisions, which change the way companies account for business combinations, are effective for Kraft as of January 1, 2009. This statement requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose all information needed by investors to understand the nature and financial effect of the business combination. We do not expect the adoption of this statement to have a material impact on our financial statements.

In December 2007, the FASB also issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51*, the provisions of which are effective for Kraft as of January 1, 2009. This statement requires an entity to classify noncontrolling interests in subsidiaries as a separate component of equity. Additionally, transactions between an entity and noncontrolling interests are required to be treated as equity transactions. We do not expect the adoption of this statement to have a material impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities.* The provisions are effective for Kraft as of January 1, 2009. This statement requires enhanced disclosures about (i) how and why we use derivative instruments, (ii) how we account for derivative instruments and related hedged items under SFAS No. 133, and (iii) how derivative instruments and related hedged items affect our financial results. We do not expect the adoption of this statement to have a material impact on our financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*, ("FSP EITF 03-6-1"). The provisions are effective for Kraft as of January 1, 2009. FSP EITF 03-6-1 considers unvested share-based payment awards with the right to receive nonforfeitable dividends or their equivalents participating securities that should be included in the calculation of EPS under the two-class method. As such, following the adoption of FSP EITF 03-6-1, our restricted and deferred stock awards will be considered participating units in our calculation of EPS. We do not expect the adoption of this statement to have a material impact on our financial statements.

In December 2008, the FASB issued FSP FAS No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, ("FSP FAS No. 132(R)-1"). The provisions are effective for Kraft as of January 1, 2009. FSP FAS No. 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. We do not expect the adoption of this statement to have a material impact on our financial statements.

<u>Note 2. Acquisitions and Divestitures:</u>

LU Biscuit Acquisition:
On November 30, 2007, we acquired *LU* Biscuit for €5.1 billion (approximately $7.6 billion) in cash. The acquisition included 32 manufacturing facilities and approximately 14,000 employees. We acquired net assets consisting primarily of goodwill of $4,052 million (which will not be deductible for statutory tax purposes), intangible assets of $3,546 million (substantially all of which are indefinite-lived), receivables of $757 million, property, plant and equipment of $1,054 million and inventories of $204 million, and assumed liabilities of $1,063 million consisting primarily of accounts payable and accruals. These purchase price allocations were based upon appraisals that were finalized in the third quarter of 2008. During the second quarter of 2008, we also repaid Groupe Danone S.A. for excess cash received upon the acquisition of *LU* Biscuit. *LU* Biscuit contributed net

revenues of $3.2 billion during 2008, and $2.8 billion on a proforma basis during 2007. *LU* Biscuit reported results from operations on a one month lag in 2007; as such, there was no impact on our operating results. On a proforma basis, *LU* Biscuit's net earnings for the year ended December 31, 2007 would have been insignificant to Kraft.

United Biscuits Acquisition:
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. The redemption of our investment in UB resulted in a $251 million gain.

Post Cereals Split-off:
On August 4, 2008, we completed the split-off of the *Post* cereals business into Ralcorp Holdings, Inc. ("Ralcorp"), after an exchange with our shareholders. The exchange is expected to be tax-free to participating shareholders for U.S. federal income tax purposes.

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

On June 25, 2008, Cable Holdco filed a registration statement on Form S-1/S-4/A with the SEC that announced the start of the exchange offer. Approximately 30.5 million shares of Cable Holdco were offered in exchange for Kraft Common Stock at an exchange ratio of 0.6606. The exchange ratio was calculated using the daily volume-weighted average prices of Kraft Common Stock and Ralcorp common stock on the NYSE on the last three trading days of the offer, which expired on August 4, 2008. The exchange offer was over-subscribed and as a result, the number of shares of Kraft Common Stock accepted for exchange in the offer was prorated. Following the merger of Cable Holdco and a Ralcorp subsidiary, the Cable Holdco common stock was exchanged for shares of Ralcorp common stock on a one-for-one basis.

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

The results of the *Post* cereals business were reflected as discontinued operations on the consolidated statement of earnings and prior period results were restated in a consistent manner. Pursuant to the *Post* cereals business Transition Services Agreement, we agreed to provide certain sales, co-manufacturing, distribution, information technology, and accounting and finance services to Ralcorp for up to 12 months, with Ralcorp's option to extend it for an additional 6 months.

During the fourth quarter of 2008, we increased our gain on discontinued operations by $77 million to correct for a deferred tax liability that should have been written-off upon the split-off of the *Post* cereals business. As such, our gain from the split-off of the *Post* cereals business was $937 million.

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

	For the Years Ended December 31,		
	2008	2007	2006
		(in millions)	
Net revenues	$ 666	$ 1,107	$ 1,100
Earnings before income taxes	184	365	367
Provision for income taxes	(69)	(135)	(135)
Gain on discontinued operations, net of income taxes	937	–	–
Earnings and gain from discontinued operations, net of income taxes	$ 1,052	$ 230	$ 232

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

Inventories, net	$ 83
Property, plant and equipment, net	425
Goodwill	1,234
Other assets	11
Other liabilities	(3)
Distributed assets of the *Post* cereals business	$ 1,750

Other Divestitures:
In February 2009, we reached an agreement to divest a juice operation in Brazil. The transaction is subject to customary closing conditions, including regulatory approvals, and we expect it to close by mid-2009.

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

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

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

In 2007, we received $216 million in proceeds and recorded pre-tax gains of $15 million on the divestitures of our hot cereal assets and trademarks, our sugar confectionery assets in Romania and related trademarks and our flavored water and juice brand assets and related trademarks, including *Veryfine* and *Fruit2O*. We recorded an after-tax loss of $3 million on these divestitures to reflect the differing book and tax bases of our hot cereal assets and trademarks divestiture.

In 2006, we received $946 million in proceeds and recorded pre-tax gains of $117 million on the divestitures of our pet snacks brand and assets, rice brand and assets, certain Canadian assets, our industrial coconut assets, a U.S. biscuit brand and a U.S. coffee plant. We recorded after-tax gains of $31 million on these divestitures, which reflects the tax expense of $57 million related to the differing book and tax bases on our pet snacks brand and assets divestiture.

These gains and losses on divestitures do not reflect the related asset impairment charges discussed in Note 6, *Asset Impairment, Exit and Implementation Costs*.

The aggregate operating results of the divestitures discussed above, other than the divestiture of the *Post* cereals business, were not material to our financial statements in any of the periods presented. Refer to Note 17, *Segment Reporting*, for details of all (losses) / gains on divestitures by segment.

Note 3. Inventories:

Inventories at December 31, 2008 and 2007 were:

	2008	2007
	(in millions)	
Raw materials	$ 1,568	$ 1,697
Finished product	2,313	2,541
	3,881	4,238
LIFO reserve	(152)	(142)
Inventories, net	$ 3,729	$ 4,096

We used the LIFO method to determine the cost of 35% of inventories at December 31, 2008 and 37% of inventories at December 31, 2007.

Note 4. Property, Plant and Equipment:

Property, plant and equipment at December 31, 2008 and 2007 were:

	2008	2007
	(in millions)	
Land and land improvements	$ 462	$ 454
Buildings and building equipment	3,913	4,121
Machinery and equipment	12,590	13,750
Construction in progress	850	879
	17,815	19,204
Accumulated depreciation	(7,898)	(8,426)
Property, plant and equipment, net	$ 9,917	$ 10,778

Note 5. Goodwill and Intangible Assets:

At December 31, 2008 and 2007, goodwill by reportable segment was:

	2008	2007
	(in millions; 2007 restated)	
Kraft North America:		
U.S. Beverages	$ 1,290	$ 1,290
U.S. Cheese	3,000	3,000
U.S. Convenient Meals	1,460	1,460
U.S. Grocery	3,046	3,043
U.S. Snacks (1)	6,965	8,253
Canada & N.A. Foodservice	2,306	2,364
Kraft International:		
European Union	7,427	9,392
Developing Markets	2,087	2,391
Total goodwill	$ 27,581	$ 31,193

(1) This segment was formerly known as U.S. Snacks & Cereals.

Intangible assets at December 31, 2008 and 2007 were:

	2008	2007
	(in millions)	
Non-amortizable intangible assets	$ 12,758	$ 12,065
Amortizable intangible assets	254	197
	13,012	12,262
Accumulated amortization	(86)	(62)
Intangible assets, net	$ 12,926	$ 12,200

Non-amortizable intangible assets consist substantially of brand names purchased through our acquisitions of Nabisco Holdings Corp., *LU* Biscuit and certain operations of UB (see Note 2, *Acquisitions and Divestitures*, for further details). Amortizable intangible assets consist primarily of trademark licenses, customer-related intangibles and non-compete agreements.

The movements in goodwill and intangible assets were:

	2008		2007	
	Goodwill	Intangible Assets, at cost	Goodwill	Intangible Assets, at cost
	(in millions)			
Balance at January 1	$ 31,193	$ 12,262	$ 25,553	$ 10,244
Changes due to:				
Foreign currency	(1,062)	(516)	536	43
Acquisitions	(1,187)	1,356	5,239	2,196
Divestitures	(1,272)	(37)	(45)	(134)
Asset impairments	(35)	(53)	(3)	(70)
Other	(56)	–	(87)	(17)
Balance at December 31	$ 27,581	$ 13,012	$ 31,193	$ 12,262

Significant changes to goodwill and intangible assets during 2008 were:

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

Significant changes to goodwill and intangible assets during 2007 were:

- Acquisitions – We increased goodwill by $5,239 million and intangible assets by $2,196 million related to preliminary allocations of purchase price for our acquisition of *LU* Biscuit. The allocations were later finalized in 2008.
- Divestitures – We reduced goodwill by $45 million and intangible assets by $134 million primarily due to the divestiture of our hot cereal assets and trademarks.
- Asset Impairments – We recorded an asset impairment charge of $70 million to intangible assets in conjunction with the divestiture of our flavored water and juice brand assets and related trademarks.
- Other – We reduced goodwill by $87 million primarily due to the adoption of FIN 48 (see Note 1, *Summary of Significant Accounting Policies*, for further details), and reduced intangible assets by $17 million primarily due to the removal of a fully amortized intangible asset.

Amortization expense for intangible assets was $23 million in 2008, $13 million in 2007 and $7 million in 2006. We currently estimate amortization expense for each of the next five years to be approximately $20 million or less.

Note 6. Asset Impairment, Exit and Implementation Costs:

Restructuring Program

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

- incurred $3.1 billion in pre-tax charges reflecting asset disposals, severance and implementation costs;
- announced the closure of 36 facilities and announced the elimination of approximately 19,000 positions; and
- will use cash to pay for $2.0 billion of the $3.1 billion in charges.

We incurred charges under the Restructuring Program of $989 million in 2008, $459 million in 2007 and $673 million in 2006. Since the inception of the Restructuring Program, we have paid cash for $1.5 billion of the $3.1 billion in charges. At December 31, 2008, we had $489 million accrued in Restructuring Program costs.

In 2008, we implemented a new operating structure built on three core elements: business units; shared services that leverage the scale of our global portfolio; and a streamlined corporate staff. Within the new structure, business units now have full P&L accountability and are staffed accordingly. This also ensures that we are putting our resources closer to where we make decisions that affect our consumers and customers. Our corporate and shared service functions continue to streamline their organizations and focus on core activities that can more efficiently support the goals of the business units. The intent is to simplify, streamline and increase accountability, with the ultimate goal of generating reliable growth for Kraft. In total, we will eliminate approximately 1,500 positions as we streamline our headquarter functions.

We are also in the process of reorganizing our European operations to function on a pan-European centralized category management and value chain model. After the reorganization is complete, the European Principal Company ("EPC") will manage the European categories centrally and make decisions for all aspects of the value chain, except for sales and distribution. The European subsidiaries will execute sales and distribution locally, and the local production companies will act as toll manufacturers on behalf of the EPC. The EPC legal entity has been incorporated as Kraft Foods Europe GmbH in Zurich, Switzerland. As part of the reorganization, we incurred $16 million of restructuring costs, $39 million of implementation costs and $11 million of non-recurring costs during 2008; $21 million of restructuring costs, $24 million of implementation costs and $10 million of non-recurring costs during 2007; and $7 million of restructuring costs during 2006. Restructuring and implementation costs are included in the total Restructuring Program charges. Other costs relating to our Kraft Europe Reorganization are recorded as marketing, administration and research costs. Management believes the disclosure of implementation and other non-recurring charges provides readers of our financial statements greater transparency to the total costs of our Kraft Europe Reorganization.

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, we began using EDS's data centers, and EDS started providing us with web hosting, telecommunications and IT workplace services. In 2008, we incurred restructuring costs of $2 million and implementation costs of $14 million related to the EDS transition. In 2007, we reversed $6 million in restructuring costs because our severance costs were lower than originally anticipated, and we incurred implementation costs of $47 million. In 2006, we incurred restructuring costs of $51 million and implementation costs of $56 million. These amounts are included in the total Restructuring Program charges.

Restructuring Costs:
Under the Restructuring Program, we recorded asset impairment and exit costs of $884 million during 2008, $332 million during 2007 and $578 million during 2006. We will pay cash for $659 million of the charges that we incurred during 2008. As part of the program, we announced the closure of six plants during 2008.

Restructuring liability activity for the years ended December 31, 2008 and 2007 was:

	Severance	Asset Write-downs	Other	Total
		(in millions)		
Liability balance, January 1, 2007	$ 165	$ –	$ 32	$ 197
Charges	156	99	77	332
Cash (spent) / received	(155)	6	(94)	(243)
Charges against assets	(25)	(109)	1	(133)
Currency	13	4	–	17
Liability balance, December 31, 2007	154	–	16	170
Charges	590	195	99	884
Cash (spent) / received	(255)	33	(71)	(293)
Charges against assets	(30)	(214)	2	(242)
Currency	(15)	(14)	(1)	(30)
Liability balance, December 31, 2008	$ 444	$ –	$ 45	$ 489

Severance charges include the cost of benefits received by terminated employees. As of December 31, 2008, we had eliminated approximately 15,200 positions, and we had announced our intent to eliminate an additional 3,800 positions. Severance charges against assets primarily relate to incremental pension costs, which reduce prepaid pension assets. Asset impairment write-downs were caused by plant closings and related activity. Cash received on asset write-downs reflects the net cash proceeds from the sales of assets previously written-down under the Restructuring Program. We incurred other costs related primarily to the renegotiation of supplier contract costs, workforce reductions associated with facility closings and the termination of leasing agreements.

Implementation Costs:
Implementation costs are directly attributable to exit costs; however, they do not qualify for treatment under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. These costs primarily include the discontinuance of certain product lines, incremental expenses related to the closure of facilities, the EDS transition and the reorganization of our European operations discussed above. Management believes the disclosure of implementation charges provides readers of our financial statements greater transparency to the total costs of our Restructuring Program. Substantially all implementation costs incurred in 2008 will require cash payments.

Implementation costs associated with the Restructuring Program were:

	2008	2007 (in millions)	2006
Cost of sales	$ 38	$ 67	$ 25
Marketing, administration and research costs	67	60	70
Total implementation costs	$ 105	$ 127	$ 95

Asset Impairment Charges

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

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

During our 2006 annual review of goodwill and non-amortizable intangible assets, we recorded a $24 million charge for the impairment of intangible assets in Egypt and our hot cereal intangible assets in the U.S. Additionally, during 2006, we re-evaluated the business model for our *Tassimo* hot beverage system, the revenues of which lagged our projections. This evaluation resulted in a $245 million asset impairment charge related to lower utilization of existing manufacturing capacity. We also incurred an asset impairment charge of $86 million during 2006 in recognition of our pet snacks brand and assets divestiture. The charge primarily included the write-off of a portion of the associated goodwill of $25 million and intangible assets of $55 million. In addition, in January 2007, we announced the divestiture of our hot cereal assets and trademarks. We recorded an asset impairment charge of $69 million in the fourth quarter of 2006 in connection with the anticipated divestiture. The charge primarily included the write-off of a portion of the associated goodwill of $15 million and intangible assets of $52 million. The transaction closed in 2007 and no further impairment charges were incurred for this divestiture. We recorded the aggregate asset impairment charges within asset impairment and exit costs.

Total – Asset Impairment, Exit and Implementation Costs

We included the asset impairment, exit and implementation costs discussed above, for the years ended December 31, 2008, 2007 and 2006 in segment operating income as follows:

	For the Year Ended December 31, 2008 (in millions)				
	Restructuring Costs	Asset Impairment	Total Asset Impairment and Exit Costs	Implementation Costs	Total
Kraft North America:					
U.S. Beverages	$ 59	$ –	$ 59	$ 8	$ 67
U.S. Cheese	31	–	31	7	38
U.S. Convenient Meals	31	–	31	7	38
U.S. Grocery	36	–	36	5	41
U.S. Snacks	72	–	72	9	81
Canada & N.A. Foodservice	100	–	100	10	110
Kraft International:					
European Union	418	89	507	56	563
Developing Markets	137	51	188	3	191
Total – continuing operations	884	140	1,024	105	1,129
Discontinued operations	–	–	–	–	–
Total	$ 884	$ 140	$ 1,024	$ 105	$ 1,129

	For the Year Ended December 31, 2007 (in millions; as restated)				
	Restructuring Costs	Asset Impairment	Total Asset Impairment and Exit Costs	Implementation Costs	Total
Kraft North America:					
U.S. Beverages	$ 12	$ 120	$ 132	$ 7	$ 139
U.S. Cheese	50	–	50	25	75
U.S. Convenient Meals	20	–	20	15	35
U.S. Grocery	25	–	25	7	32
U.S. Snacks	17	–	17	15	32
Canada & N.A. Foodservice	50	–	50	2	52
Kraft International:					
European Union	108	–	108	44	152
Developing Markets	38	–	38	12	50
Total – continuing operations	320	120	440	127	567
Discontinued operations	12	–	12	–	12
Total	$ 332	$ 120	$ 452	$ 127	$ 579

	For the Year Ended December 31, 2006				
	Restructuring Costs	Asset Impairment	Total Asset Impairment and Exit Costs	Implementation Costs	Total
	(in millions; as restated)				
Kraft North America:					
U.S. Beverages	$ 17	$ 75	$ 92	$ 10	$ 102
U.S. Cheese	77	–	77	12	89
U.S. Convenient Meals	81	–	81	8	89
U.S. Grocery	37	–	37	11	48
U.S. Snacks	35	168	203	16	219
Canada & N.A. Foodservice	24	–	24	7	31
Kraft International:					
European Union	230	170	400	23	423
Developing Markets	74	11	85	8	93
Total – continuing operations	575	424	999	95	1,094
Discontinued operations	3	–	3	–	3
Total	$ 578	$ 424	$ 1,002	$ 95	$ 1,097

Note 7. Debt and Borrowing Arrangements:

Short-Term Borrowings:
At December 31, 2008 and 2007, our short-term borrowings and related average interest rates consisted of:

	2008		2007	
	Amount Outstanding (in millions)	Average Year-End Rate	Amount Outstanding (in millions)	Average Year-End Rate
Commercial paper	$ 606	2.6%	$ 1,608	5.0%
LU Biscuit bridge facility	–	–	5,527	5.2%
Bank loans	291	13.0%	250	7.2%
Total short-term borrowings	$ 897		$ 7,385	

The fair values of our short-term borrowings at December 31, 2008 and 2007, based upon current market interest rates, approximate the amounts disclosed above.

Borrowing Arrangements:
We maintain a revolving credit facility that we have historically used for general corporate purposes and to support our commercial paper issuances. The $4.5 billion, multi-year revolving credit facility expires in April 2010. No amounts have been drawn on this facility. In October 2008, one of the syndicate banks under our credit facility, Lehman Commercial Paper, Inc., filed for bankruptcy protection. Lehman's commitment under our credit facility is approximately $136 million. We do not expect to replace them, and our capacity under our credit facility will accordingly be reduced to approximately $4.4 billion.

We must maintain a net worth of at least $20.0 billion under the terms of our revolving credit facility. At December 31, 2008, our net worth was $22.2 billion. We expect to continue to meet this covenant. The revolving credit facility has no other financial covenants, credit rating triggers or provisions that could require us to post collateral as security.

In addition to the above, some of our international subsidiaries maintain primarily uncommitted credit lines to meet short-term working capital needs. Collectively, these credit lines amounted to $1.7 billion at December 31, 2008. Borrowings on these lines amounted to $291 million at December 31, 2008 and $250 million at December 31, 2007.

At December 31, 2007, we had borrowed €3.8 billion (approximately $5.5 billion) under the 364-day bridge facility agreement we used to acquire *LU* Biscuit ("*LU* Biscuit Bridge Facility"). Under the terms of the credit agreement, we were required to repay borrowings with the net cash proceeds from debt offerings having a maturity of greater than one year. As such, we repaid the €3.8 billion (approximately $5.9 billion at the time of repayments) with proceeds from our March 20, 2008 and May 22, 2008 debt issuances discussed below. Upon repayment, this facility was terminated.

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

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

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

On March 20, 2008, we issued €2.85 billion (approximately $4.5 billion) of senior unsecured notes and used the net proceeds (approximately $4,470 million) to repay a portion of our *LU* Biscuit Bridge Facility. The general terms of the €2.85 billion notes are:

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

On December 12, 2007, we issued $3.0 billion of senior unsecured notes and used the net proceeds ($2,966 million) for general corporate purposes, including the repayment of outstanding commercial paper and a portion of our *LU* Biscuit Bridge Facility. The general terms of the $3.0 billion notes are:

- $2.0 billion total principal notes due February 1, 2018 at a fixed, annual interest rate of 6.125%. Interest is payable semiannually, and began on August 1, 2008.
- $1.0 billion total principal notes due February 1, 2038 at a fixed, annual interest rate of 6.875%. Interest is payable semiannually, and began on August 1, 2008.

On August 13, 2007, we issued $3.5 billion of senior unsecured notes and used the net proceeds ($3,462 million) for general corporate purposes, including the repayment of outstanding commercial paper. The general terms of the $3.5 billion notes are:

- $250 million total principal notes due August 11, 2010 at a fixed, annual interest rate of 5.625%. Interest is payable semiannually, and began on February 11, 2008.
- $750 million total principal notes due February 11, 2013 at a fixed, annual interest rate of 6.000%. Interest is payable semiannually, and began on February 11, 2008.
- $1.5 billion total principal notes due August 11, 2017 at a fixed, annual interest rate of 6.500%. Interest is payable semiannually, and began on February 11, 2008.
- $750 million total principal notes due August 11, 2037 at a fixed, annual interest rate of 7.000%. Interest is payable semiannually, and began on February 11, 2008.
- $250 million total principal notes due August 11, 2010 at a floating, annual interest rate of LIBOR plus 50 basis points that resets quarterly. The rate as of December 31, 2008 was 2.735%. Interest on the floating rate notes is payable quarterly, and began on November 13, 2007.

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

(i) a “change of control” triggering event, and
(ii) a downgrade of these notes below an investment grade rating by each of Moody’s Investors Service, Inc., Standard & Poor’s Ratings Services and Fitch, Inc. within a specified period.

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

At December 31, 2008 and 2007, our long-term debt consisted of (interest rates were as of December 31, 2008):

	2008	2007
	(in millions)	
Notes, 2.74% to 7.55% (average effective rate 6.17%), due through 2039	$ 15,130	$ 13,392
Euro notes, 5.75% to 6.25% (average effective rate 5.98%), due through 2015	3,970	–
7% Debenture (effective rate 11.32%), $200 million face amount, due 2011	182	175
Other foreign currency obligations	11	16
Capital leases and other	61	41
Total long-term debt	19,354	13,624
Less current portion of long-term debt	(765)	(722)
Long-term debt	$ 18,589	$ 12,902

Aggregate maturities of long-term debt are (in millions):

2009	$ 765
2010	508
2011	2,208
2012	4,300
2013	1,555
Thereafter	10,118

On October 1, 2008, we repaid $700 million in notes. This repayment was primarily financed from commercial paper issuances.

Fair Value:
The aggregate fair value of our long-term debt, based on quoted prices in active markets for identical liabilities, was $19,629 million at December 31, 2008 and $13,903 million at December 31, 2007.

The aggregate fair value of our third-party debt, based on market quotes, at December 31, 2008, was $20,526 million as compared with the carrying value of $20,251 million. The aggregate fair value of our third-party debt at December 31, 2007, was $21,288 million as compared with the carrying value of $21,009 million.

Interest and Other Expense:
Interest and other (income) / expense was:

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions)		
Interest and other expense, net:			
Interest expense, external debt	$ 1,272	$ 739	$ 609
Interest income, Altria and affiliates	–	(74)	(47)
Other income, net	(32)	(61)	(52)
Total interest and other expense, net	$ 1,240	$ 604	$ 510

Note 8. Capital Stock:

Our articles of incorporation authorize 3.0 billion shares of Class A common stock, 2.0 billion shares of Class B common stock and 500 million shares of preferred stock. Shares of Class A common stock issued, repurchased and outstanding were:

	Shares Issued	Shares Repurchased	Shares Outstanding
Balance at January 1, 2006	555,000,000	(65,119,245)	489,880,755
Repurchase of shares	–	(38,744,248)	(38,744,248)
Exercise of stock options and issuance of other stock awards	–	4,836,138	4,836,138
Balance at December 31, 2006	555,000,000	(99,027,355)	455,972,645
Repurchase of shares	–	(111,516,043)	(111,516,043)
Exercise of stock options and issuance of other stock awards	–	9,321,018	9,321,018
Conversion of Class B common shares to Class A common shares	1,180,000,000	–	1,180,000,000
Balance at December 31, 2007	1,735,000,000	(201,222,380)	1,533,777,620
Repurchase of shares	–	(25,272,255)	(25,272,255)
Shares tendered (Note 2)	–	(46,119,899)	(46,119,899)
Exercise of stock options and issuance of other stock awards	–	6,915,974	6,915,974
Balance at December 31, 2008	1,735,000,000	(265,698,560)	1,469,301,440

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

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

At December 31, 2008, 139,940,307 shares of Common Stock were reserved for stock options and other stock awards.

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 our current program at our discretion. The total repurchases under these programs were 25.3 million shares for $777 million in 2008, 110.1 million shares for $3,640 million in 2007, and 38.7 million shares for $1,250 million in 2006. We made these repurchases of our Common Stock in open market transactions.

Share Repurchase Program Authorized by the Board of Directors	$5.0 billion	$2.0 billion	$1.5 billion
Authorized / completed period for repurchase	April 2007 – March 2009	March 2006 – March 2007	December 2004 – March 2006
Aggregate cost of shares repurchased in 2008 (millions of shares)	$777 million (25.3 shares)		
Aggregate cost of shares repurchased in 2007 (millions of shares)	$3.5 billion (105.6 shares)	$140 million (4.5 shares)	
Aggregate cost of shares repurchased in 2006 (millions of shares)		$1.0 billion (30.2 shares)	$250 million (8.5 shares)
Aggregate cost of shares repurchased life-to-date under program (millions of shares)	$4.3 billion (130.9 shares)	$1.1 billion (34.7 shares)	$1.5 billion (49.1 shares)

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

Note 9. Accumulated Other Comprehensive Losses:

The components of accumulated other comprehensive losses were:

	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 / (losses), net of income taxes:				
Currency translation adjustments	567	–	–	567
Additional minimum pension liability	–	78	–	78
Total other comprehensive earnings				645
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 / (losses), net of income taxes:				
Currency translation adjustments	672	(78)	–	594
Amortization of experience losses and prior service costs	–	154	–	154
Pension settlement	–	45	–	45
Net actuarial gain arising during period	–	410	–	410
Change in fair value of cash flow hedges	–	–	31	31
Total other comprehensive earnings				1,234
Balances at December 31, 2007	$ (51)	$ (1,811)	$ 27	$ (1,835)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	(2,348)	114	–	(2,234)
Amortization of experience losses and prior service costs	–	98	–	98
Pension settlement	–	48	–	48
Net actuarial loss arising during period	–	(2,021)	–	(2,021)
Change in fair value of cash flow hedges	–	–	(50)	(50)
Total other comprehensive losses				(4,159)
Balances at December 31, 2008	$ (2,399)	$ (3,572)	$ (23)	$ (5,994)

Note 10. Stock Plans:

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

Under the Kraft 2005 Performance Incentive Plan (the “2005 Plan”), we may grant to eligible employees awards of stock options, stock appreciation rights, restricted stock, restricted and deferred stock units, and other awards based on our Common Stock, as well as performance-based annual and long-term incentive awards. We are authorized to issue a maximum of 150 million shares of our Common Stock under the 2005 Plan, of which no more than 45 million shares may be awarded as restricted or deferred stock. In addition, under the Kraft 2006 Stock Compensation Plan for Non-Employee Directors (the "2006 Directors Plan"), we may grant up to 500,000 shares of Common Stock to members of the Board of Directors who are not our full-time employees. At December 31, 2008, there were 95,075,163 shares available to be granted under the 2005 Plan and 412,996 shares available to be granted under the 2006 Directors Plan. Restricted or deferred shares available for grant under the 2005 Plan at December 31, 2008, were 27,229,592.

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

On January 1, 2006, we adopted SFAS No. 123 (Revised 2004), *Share-Based Payment*, ("SFAS No. 123(R)") under the modified prospective method. The adoption of SFAS No. 123(R) had an insignificant impact on earnings in 2006. The gross cumulative effect was recorded in marketing, administration and research costs.

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

We account for our employee stock options under the fair value method of accounting using a modified Black-Scholes methodology to measure stock option expense at the date of grant. The fair value of the stock options at the date of grant is amortized to expense over the vesting period. We recorded compensation expense related to stock options of $18 million in 2008. The deferred tax benefit recorded related to this compensation expense was $6 million in 2008. The unamortized compensation expense related to our stock options was $40 million at December 31, 2008 and is expected to be recognized over a weighted-average period of two years. Our weighted-average Black-Scholes fair value assumptions were as follows:

	Risk-Free Interest Rate	Expected Life	Expected Volatility	Expected Dividend Yield	Fair Value at Grant Date
2008	3.08%	6 years	21.04%	3.66%	$ 4.49

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

Stock option activity for the year ended December 31, 2008 was:

	Shares Subject to Option	Weighted-Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at January 1, 2008	31,066,239	$ 21.47		
Options granted	13,565,920	29.49		
Options exercised	(4,956,807)	16.12		
Options cancelled	(1,189,793)	29.37		
Balance at December 31, 2008	38,485,559	24.74	4 years	$163 million
Exercisable at December 31, 2008	25,429,519	22.26	2 years	$163 million

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

On May 3, 2007, our Board of Directors approved a stock option grant to our CEO to recognize her election as our Chairman. She received 300,000 stock options under the 2005 Plan, which vest under varying market and service conditions and expire ten years after the grant date. The grant had an insignificant impact on earnings in 2007.

Prior to our IPO, certain Kraft employees participated in Altria's stock compensation plans. After the IPO, Altria did not issue stock awards to our employees, other than reloads of previously issued options and stock awards issued as a result of our spin-off from Altria. No reloads were issued during 2008 and 2007. Compensation expense for Altria stock option awards for reloads totaled $3 million in 2006, and the related tax benefit totaled $1 million. The fair value of the awards was determined using a modified Black-Scholes methodology using the following weighted-average assumptions for Altria common stock.

	Risk-Free Interest Rate	Expected Life	Expected Volatility	Expected Dividend Yield	Fair Value at Grant Date
2006 Altria	4.87%	4 years	26.73%	4.43%	$ 12.79

The total intrinsic value of options exercised was $76 million in 2008, $90 million in 2007 and $7 million in 2006. Cash received from options exercised was $80 million in 2008, $124 million in 2007 and $55 million in 2006. The actual tax benefit realized for the tax deductions from the option exercises totaled $44 million in 2008, $35 million in 2007 and $3 million in 2006.

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

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

The fair value of the restricted and deferred shares at the date of grant is amortized to earnings over the restriction period. We recorded compensation expense related to restricted and deferred stock of $160 million in 2008, $136 million in 2007 and $139 million (including a pre-tax cumulative effect gain of $9 million from the adoption of SFAS No. 123(R)) in 2006. The deferred tax benefit recorded related to this compensation expense was $53 million in 2008, $47 million in 2007 and $51 million in 2006. The unamortized compensation expense related to our restricted and deferred stock was $172 million at December 31, 2008 and is expected to be recognized over a weighted-average period of two years.

Our restricted and deferred stock activity for the year ended December 31, 2008 was:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at January 1, 2008	18,660,910	$ 32.21
Granted	4,968,452	30.38
Vested	(6,645,606)	32.66
Forfeited	(1,732,951)	31.84
Balance at December 31, 2008	15,250,805	31.46

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

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

The weighted-average grant date fair value of restricted and deferred stock granted was $151 million, or $30.38 per restricted or deferred share, in 2008, $310 million, or $33.63 per restricted or deferred share, in 2007 and $200 million, or $29.16 per restricted or deferred share, in 2006. The vesting date fair value of restricted and deferred stock was $196 million in 2008, $153 million in 2007, and $123 million in 2006.

Bifurcation of Stock Awards Upon Spin-Off from Altria:
Upon our spin-off, 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 after our spin-off from Altria was not greater than the aggregate intrinsic value immediately prior to it. Holders of Altria restricted stock or stock rights awarded before January 31, 2007 retained their existing awards and received restricted stock or stock rights in Kraft 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 had announced the spin-off at that time. We reimbursed Altria $179 million for net settlement of the employee stock awards. We determined the fair value of the stock options using the Black-Scholes option valuation model, and adjusted the fair value of the restricted stock and stock rights by the value of projected forfeitures.

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

Note 11. Benefit Plans:

Pension Plans

Obligations and Funded Status:
The projected benefit obligations, plan assets and funded status of our pension plans at December 31, 2008 and 2007 were:

	U.S. Plans		Non-U.S. Plans	
	2008	2007	2008	2007
	(in millions)			
Benefit obligation at January 1	$ 5,952	$ 6,286	$ 4,275	$ 4,079
Service cost	149	159	107	101
Interest cost	371	365	257	194
Benefits paid	(314)	(325)	(269)	(219)
Settlements paid	(331)	(260)	(16)	–
Actuarial losses / (gains)	306	(287)	(542)	(326)
Currency	–	–	(710)	423
Other	–	14	109	23
Benefit obligation at December 31	6,133	5,952	3,211	4,275
Fair value of plan assets at January 1	7,006	7,027	4,041	3,466
Actual return on plan assets	(2,028)	545	(761)	166
Contributions	53	19	180	269
Benefits paid	(314)	(325)	(269)	(219)
Settlements paid	(331)	(260)	(16)	–
Currency	–	–	(615)	357
Other	–	–	58	2
Fair value of plan assets at December 31	4,386	7,006	2,618	4,041
Net pension (liability) / asset recognized at December 31	$ (1,747)	$ 1,054	$ (593)	$ (234)

The accumulated benefit obligation, which represents benefits earned to the measurement date, was $5,464 million at December 31, 2008 and $5,349 million at December 31, 2007 for the U.S. pension plans. The accumulated benefit obligation for the non-U.S. pension plans was $3,024 million at December 31, 2008 and $3,979 million at December 31, 2007.

The combined U.S. and non-U.S. pension plans resulted in a net pension liability of $2,340 million at December 31, 2008 and a net prepaid pension asset of $820 million at December 31, 2007. We recognized these amounts in our consolidated balance sheets at December 31, 2008 and 2007 as follows:

	2008	2007
	(in millions)	
Prepaid pension assets	$ 56	$ 1,648
Other accrued liabilities	(29)	(18)
Accrued pension costs	(2,367)	(810)
	$ (2,340)	$ 820

Our U.S. and certain of our non-U.S. plans are under funded and have accumulated benefit obligations in excess of plan assets. For these plans, the projected benefit obligations, accumulated benefit obligations and the fair value of plan assets at December 31, 2008 and 2007 were:

	U.S. Plans		Non-U.S. Plans	
	2008	2007	2008	2007
	(in millions)			
Projected benefit obligation	$ 6,133	$ 203	$ 1,740	$ 1,470
Accumulated benefit obligation	5,464	180	1,664	1,378
Fair value of plan assets	4,386	–	1,144	771

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

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

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

Components of Net Pension Cost:
Net pension cost consisted of the following for the years ended December 31, 2008, 2007 and 2006:

	U.S. Plans			Non-U.S. Plans		
	2008	2007	2006	2008	2007	2006
	(in millions)					
Service cost	$ 149	$ 159	$ 170	$ 91	$ 101	$ 95
Interest cost	371	365	354	222	194	169
Expected return on plan assets	(526)	(523)	(504)	(285)	(251)	(203)
Amortization:						
Net loss from experience differences	85	138	198	31	66	73
Prior service cost	7	5	5	7	9	8
Other expense	74	68	66	16	4	13
Net pension cost	$ 160	$ 212	$ 289	$ 82	$ 123	$ 155

Retired employees elected lump-sum payments, resulting in settlement losses for the U.S. plans of $55 million in 2008, $47 million in 2007 and $49 million in 2006. Additionally, as previously discussed in Note 6, *Asset Impairment, Exit and Implementation Costs*, we announced several workforce reduction initiatives as part of the Restructuring Program. Employees left Kraft under these initiatives, resulting in settlement losses for the U.S. plans of $19 million in 2008, $21 million in 2007 and $17 million in 2006. Non-U.S. plant closures and early retirement benefits resulted in curtailment and settlement losses of $16 million in 2008, $4 million in 2007 and $13 million in 2006. These costs are included in other expense above.

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

For the combined U.S. and non-U.S. pension plans, we expect to amortize from accumulated other comprehensive losses into net periodic pension cost during 2009:

- an estimated $180 million of net loss from experience differences; and
- an estimated $11 million of prior service cost.

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

	U.S. Plans			Non-U.S. Plans		
	2008	2007	2006	2008	2007	2006
Discount rate	6.30%	5.90%	5.60%	5.44%	4.67%	4.44%
Expected rate of return on plan assets	8.00%	8.00%	8.00%	7.43%	7.53%	7.57%
Rate of compensation increase	4.00%	4.00%	4.00%	3.13%	3.00%	3.11%

Plan Assets:
The percentage of fair value of pension plan assets at December 31, 2008 and 2007 was:

	U.S. Plans		Non-U.S. Plans	
Asset Category	2008	2007	2008	2007
Equity securities	65%	70%	45%	56%
Debt securities	35%	30%	45%	38%
Real estate	–	–	4%	3%
Other	–	–	6%	3%
Total	100%	100%	100%	100%

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

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

We attempt to maintain our target asset allocation by rebalancing between equity and debt asset classes as we make contributions and monthly benefit payments. We intend to rebalance our plan portfolios by mid-2009 by making contributions and monthly benefit payments.

We make contributions to our U.S. and non-U.S. pension plans, primarily, to the extent that they are tax deductible and do not generate an excise tax liability. Based on current tax law, we plan to make contributions of approximately $220 million to our U.S. plans and approximately $170 million to our non-U.S. plans in 2009. However, our actual contributions may be different due to many factors, including changes in tax and other benefit laws, pension asset performance that differs significantly from the expected performance, or significant changes in interest rates.

Future Benefit Payments:
The estimated future benefit payments from our pension plans at December 31, 2008 were:

	U.S. Plans	Non-U.S. Plans
	(in millions)	
2009	$ 579	$ 213
2010	459	220
2011	453	222
2012	463	226
2013	473	230
2014 – 2018	2,557	1,219

Other Costs:
We sponsor and contribute to employee savings plans. These plans cover eligible salaried, non-union and union employees. Our contributions and costs are determined by the matching of employee contributions, as defined by the plans. Amounts charged to expense for defined contribution plans totaled $93 million in 2008, $83 million in 2007 and $84 million in 2006.

We also made contributions to multiemployer plans totaling $51 million in 2008, $50 million in 2007 and $50 million in 2006.

Postretirement Benefit Plans

Obligations:
Our postretirement health care plans are not funded. The changes in the accumulated benefit obligation and net amount accrued at December 31, 2008 and 2007 were:

	2008	2007
	(in millions)	
Accumulated postretirement benefit obligation at January 1	$ 3,063	$ 3,230
Service cost	44	46
Interest cost	183	177
Benefits paid	(206)	(203)
Plan amendments	(84)	(45)
Currency	(30)	21
Assumption changes	(28)	14
Actuarial gains	(43)	(179)
Curtailments / other	–	2
Accrued postretirement health care costs at December 31	$ 2,899	$ 3,063

The current portion of our accrued postretirement health care costs of $221 million at December 31, 2008 and $217 million at December 31, 2007 is included in other accrued liabilities.

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

	U.S. Plans		Canadian Plans	
	2008	2007	2008	2007
Discount rate	6.10%	6.10%	7.60%	5.80%
Health care cost trend rate assumed for next year	7.00%	7.50%	9.00%	9.00%
Ultimate trend rate	5.00%	5.00%	6.00%	6.00%
Year that the rate reaches the ultimate trend rate	2014	2013	2015	2014

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

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of December 31, 2008:

	One-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost	13.0%	(10.7%)
Effect on postretirement benefit obligation	11.1%	(9.3%)

Components of Net Postretirement Health Care Costs:
Net postretirement health care costs consisted of the following for the years ended December 31, 2008, 2007 and 2006:

	2008	2007 (in millions)	2006
Service cost	$ 44	$ 46	$ 50
Interest cost	183	177	174
Amortization:			
Net loss from experience differences	55	58	78
Prior service credit	(28)	(26)	(28)
Other expense	–	5	(3)
Net postretirement health care costs	$ 254	$ 260	$ 271

We expect to amortize from accumulated other comprehensive losses into net postretirement health care costs during 2009:

- an estimated $45 million of net loss from experience differences; and
- an estimated $31 million of prior service credit.

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

	U.S. Plans			Canadian Plans		
	2008	2007	2006	2008	2007	2006
Discount rate	6.10%	5.90%	5.60%	5.80%	5.00%	5.00%
Health care cost trend rate	7.50%	8.00%	8.00%	9.00%	8.50%	9.00%

Future Benefit Payments:
Our estimated future benefit payments for our postretirement health care plans at December 31, 2008 were:

	U.S. Plans	Canadian Plans
	(in millions)	
2009	$ 212	$ 9
2010	215	9
2011	218	9
2012	218	9
2013	220	10
2014 – 2018	1,107	54

Postemployment Benefit Plans

Obligations:
Our postemployment plans are not funded. The changes in the benefit obligations of the plans and net amount accrued at December 31, 2008 and 2007 were:

	2008	2007
	(in millions)	
Accumulated benefit obligation at January 1	$ 254	$ 238
Service cost	6	4
Interest cost	7	6
Restructuring Program	560	132
Benefits paid	(280)	(190)
Assumption changes	12	29
Actuarial (gains) / losses	(2)	6
Currency	(15)	12
Other	18	17
Accrued postemployment costs at December 31	$ 560	$ 254

The accumulated benefit obligation was determined using a weighted-average discount rate of 7.1% in 2008 and 7.0% in 2007, an assumed ultimate annual turnover rate of 0.5% in 2008 and 2007, assumed compensation cost increases of 4.0% in 2008 and 2007, and assumed benefits as defined in the respective plans. Postemployment costs arising from actions that offer employees benefits in excess of those specified in the respective plans are charged to expense when incurred.

Components of Net Postemployment Costs:
Net postemployment costs consisted of the following for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
		(in millions)	
Service cost	$ 6	$ 4	$ 4
Interest cost	7	6	4
Amortization of net gains	(2)	(2)	(7)
Restructuring Program and other	560	132	236
Net postemployment costs	$ 571	$ 140	$ 237

The postemployment benefit plan cost of workforce reduction initiatives announced under the Restructuring Program was $560 million in 2008, $132 million in 2007 and $247 million in 2006. These costs are included in other expense above.

The estimated net gain for the postemployment benefit plans that will be amortized from accumulated other comprehensive losses into net postemployment costs during 2009 is insignificant.

Note 12. Financial Instruments:

Commodity Cash Flow Hedges:
For derivative instruments that are highly effective and qualify for hedge accounting under SFAS No. 133, we expect to transfer unrealized losses of $108 million (net of taxes) to earnings during the next 12 months, and recognized an insignificant amount during the years ended December 31, 2008, 2007 and 2006. We recorded an insignificant amount of ineffectiveness in earnings during the years ended December 31, 2008, 2007 and 2006.

For the derivative instruments that we considered economic hedges but did not designate for hedge accounting treatment under SFAS No. 133, we recognized net gains of $56 million in 2007. The impact to earnings was insignificant in 2008 and 2006.

As of December 31, 2008, we had hedged forecasted commodity transactions for periods not exceeding the next 15 months.

Foreign Currency Cash Flow Hedges:
For derivative instruments that are highly effective and qualify for hedge accounting treatment under SFAS No. 133, we expect to transfer unrealized gains of $77 million (net of taxes) to earnings during the next 12 months, and recognized an insignificant amount during the years ended December 31, 2008, 2007 and 2006. We recorded no ineffectiveness in our foreign currency cash flow hedges in earnings during the years ended December 31, 2008, 2007 and 2006. In October 2008, one of our counterparties, Lehman Brothers Commercial Corporation, filed for bankruptcy. Consequently, we wrote off an insignificant asset related to derivatives held with them. This did not have a significant impact on our foreign currency risk management program.

For the derivative instruments that we consider economic hedges but did not designate for hedge accounting treatment under SFAS No. 133, we recognized net losses in earnings of $50 million in 2008, $231 million in 2007 and $124 million in 2006. The majority of these losses were attributable to hedges of intercompany loans and were economically offset with foreign currency gains from the intercompany receivable.

As of December 31, 2008, we had hedged forecasted foreign currency transactions for periods not exceeding the next 36 months. Excluding intercompany loans, we had hedged forecasted foreign currency transactions for periods not exceeding the next 12 months.

Impact on Other Comprehensive Losses:
Derivatives accounted for as hedges affected accumulated other comprehensive losses, net of taxes, during the years ended December 31, 2008, 2007 and 2006, as follows:

	2008	2007 (in millions)	2006
Accumulated gain / (loss) at beginning of period	$ 27	$ (4)	$ (4)
Transfer of realized losses / (gains) in fair value to earnings	26	(10)	32
Unrealized (loss) / gain in fair value	(76)	41	(32)
Accumulated (loss) / gain at December 31	$ (23)	$ 27	$ (4)

Fair Value:
The fair value (asset / (liability)) of our derivatives at December 31, 2008 was:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Derivatives	$ (363)	$ (322)	$ (41)	$ –

Hedges of Net Investments in Foreign Operations:
We designated the euro denominated borrowings used to finance the *LU* Biscuit acquisition as a net investment hedge of a portion of our overall European operations. Our cumulative translation adjustment, which is net of taxes, included gains of $83 million for the year ended December 31, 2008 and $28 million for the year ended December 31, 2007 related to the euro denominated borrowings.

Note 13. Commitments and 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.

In 2008, we recorded charges of $72 million for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations.

Third-Party Guarantees:
We have third-party guarantees 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 December 31, 2008, the maximum potential payments under our third-party guarantees were $43 million, of which approximately $8 million have no specified expiration dates. Substantially all of the remainder expire at various times through 2018. The carrying amounts of these guarantees were $38 million on our consolidated balance sheet at December 31, 2008.

Leases:
Rental expenses were $505 million in 2008, $433 million in 2007 and $416 million in 2006. Minimum rental commitments under non-cancelable operating leases in effect at December 31, 2008 were (in millions):

2009	$	250
2010		193
2011		142
2012		91
2013		49
Thereafter		71

Note 14. Income Taxes:

Earnings from continuing operations before income taxes and provision for income taxes consisted of the following for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
	(in millions; 2007 & 2006 restated)		
Earnings from continuing operations before income taxes:			
United States	$ 1,324	$ 2,118	$ 2,420
Outside United States	1,253	1,244	1,224
Total	$ 2,577	$ 3,362	$ 3,644
Provision for income taxes:			
United States federal:			
Current	$ 416	$ 618	$ 509
Deferred	(61)	(309)	(118)
	355	309	391
State and local:			
Current	65	172	77
Deferred	(27)	(74)	(35)
	38	98	42
Total United States	393	407	433
Outside United States:			
Current	507	649	398
Deferred	(172)	(54)	(15)
Total outside United States	335	595	383
Total provision for income taxes	$ 728	$ 1,002	$ 816

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

As of January 1, 2008, our unrecognized tax benefits were $850 million. If we had recognized all of these benefits, the net impact on our income tax provision would have been $666 million. Our unrecognized tax benefits were $807 million at December 31, 2008, and if we had recognized all of these benefits, the net impact on our income tax provision would have been $612 million. We expect that our unrecognized tax benefits will decrease approximately $70 million to $75 million during the next 12 months due to various audit resolutions and the expirations of statutes of limitations. We include accrued interest and penalties related to uncertain tax positions in our tax provision. We had accrued interest and penalties of $232 million as of January 1, 2008 and $239 million as of December 31, 2008. Our 2008 provision for income taxes included $17 million for interest and penalties, and we paid $6 million during 2008. Furthermore, in 2008, we decreased our interest and penalties accrual by $4 million due to refinements of preliminary allocations of purchase price for our acquisition of *LU* Biscuit.

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

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

We are regularly examined by federal and various state and foreign tax authorities. The U.S. federal statute of limitations remains open for the year 2000 and onward, with years 2000 through 2003 currently under examination by the IRS. We are also currently under examination by taxing authorities in various U.S. state and foreign jurisdictions. U.S. state and foreign jurisdictions have statutes of limitations generally ranging from three to five years. Years still open to examination by foreign tax authorities in major jurisdictions include Germany (1999 onward), Brazil (2002 onward), Canada (2003 onward), Spain (2002 onward) and France (2005 onward).

At December 31, 2008, applicable U.S. federal income taxes and foreign withholding taxes had not been provided on approximately $4.3 billion of accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested. It is impractical for us to determine the amount of unrecognized deferred tax liabilities on these permanently reinvested earnings.

The effective income tax rate on pre-tax earnings differed from the U.S. federal statutory rate for the following reasons for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
		(2007 & 2006 restated)	
U.S. federal statutory rate	35.0%	35.0%	35.0%
Increase / (decrease) resulting from:			
State and local income taxes, net of federal tax benefit excluding IRS audit impacts	2.6%	2.8%	1.6%
Benefit principally related to reversal of federal and state reserves on conclusion of IRS audit	–	–	(10.3%)
Reversal of other tax accruals no longer required	(2.3%)	(1.5%)	(1.4%)
Foreign rate differences, net of repatriation impacts	(5.2%)	(5.5%)	(0.3%)
Other	(1.9%)	(1.0%)	(2.2%)
Effective tax rate	28.2%	29.8%	22.4%

Our 2008 effective tax rate included net tax benefits of $242 million from discrete tax events. Of the total net tax benefits, $29 million related to a reconciliation of our inventory of deferred tax items that resulted in a write-down of our net deferred tax liabilities in the third quarter, and $42 million related to fourth quarter corrections of state, federal and foreign tax liabilities. The remaining net tax benefits primarily related to the resolution of various tax audits and the expiration of statutes of limitations in various jurisdictions. Other discrete tax benefits included the impact from divestitures of a Nordic and Baltic snacks operation and several operations in Spain and the tax benefit from impairment charges taken in 2008. In addition, the 2008 tax rate benefited from foreign earnings taxed below the U.S. federal statutory tax rate and from the expected tax benefit on 2008 restructuring expenses. These benefits were only partially offset by state tax expense and certain foreign costs.

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

During 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. The 2006 tax rate also benefited from the resolution of various tax items in our foreign operations, dividend repatriation benefits, joint venture earnings, and lower foreign tax rates enacted in 2006 (primarily Canada). These benefits were partially offset by state tax expense and by the tax costs associated with our 2006 divestitures.

The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities consisted of the following at December 31, 2008 and 2007:

	2008	2007
	(in millions)	
Deferred income tax assets:		
Accrued postretirement and postemployment benefits	$ 1,467	$ 1,408
Accrued pension costs	703	–
Other	2,381	1,841
Total deferred income tax assets	4,551	3,249
Valuation allowance	(84)	(105)
Net deferred income tax assets	$ 4,467	$ 3,144
Deferred income tax liabilities:		
Trade names	$ (4,431)	$ (4,359)
Property, plant and equipment	(1,862)	(1,398)
Prepaid pension costs	–	(576)
Other	(1,239)	(1,060)
Total deferred income tax liabilities	(7,532)	(7,393)
Net deferred income tax liabilities	$ (3,065)	$ (4,249)

Note 15. Earnings Per Share:

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

	For the Years Ended December 31, 2008	2007	2006
	(in millions, except per share data)		
Earnings from continuing operations	$ 1,849	$ 2,360	$ 2,828
Earnings and gain from discontinued operations, net of income taxes	1,052	230	232
Net earnings	$ 2,901	$ 2,590	$ 3,060
Weighted-average shares for basic EPS	1,491	1,575	1,643
Plus incremental shares from assumed conversions of stock options and restricted and deferred stock	19	19	12
Weighted-average shares for diluted EPS	1,510	1,594	1,655
Basic earnings per share:			
Continuing operations	$ 1.24	$ 1.50	$ 1.72
Discontinued operations	0.71	0.14	0.14
Net earnings	$ 1.95	$ 1.64	$ 1.86
Diluted earnings per share:			
Continuing operations	$ 1.22	$ 1.48	$ 1.71
Discontinued operations	0.70	0.14	0.14
Net earnings	$ 1.92	$ 1.62	$ 1.85

For the year ended December 31, 2008, we excluded 11.3 million Kraft stock options from the calculation of weighted-average shares for diluted EPS because they were antidilutive. For the years ended December 31, 2007 and 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 16. 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 provided information technology services to Kraft during the EDS transition. Before our spin-off from Altria, ALCS provided pre-spin administrative services to us under a separate Corporate Services agreement that expired on March 30, 2007. These services included planning, legal, treasury, auditing, insurance, human resources, office of the secretary, corporate affairs, information technology, aviation and tax services. Billings for these services were $29 million in 2007 and $178 million in 2006. As of January 1, 2008, ALCS no longer provided services to Kraft.

On March 30, 2007, we also entered into Employee Matters and Tax Sharing Agreements with Altria. The Employee Matters Agreement set 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 identified Altria's and Kraft's rights, responsibilities and obligations with respect to our income taxes following our spin-off from Altria. It also placed 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 our spin-off from Altria.

Also, see Note 14, *Income Taxes*, for information on how the closure of an IRS review of Altria's consolidated federal income tax return in 2006 impacted us.

Note 17. Segment Reporting:

Kraft manufactures and markets packaged food products, including snacks, beverages, cheese, 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 U.S. Beverages, U.S. Cheese, U.S. Convenient Meals, U.S. Grocery, U.S. Snacks (formerly known as U.S. Snacks & Cereals) and Canada & North America Foodservice. We manage Kraft International's operations by geographic location, and its reportable segments are European Union and Developing Markets.

Effective August 4, 2008, we completed the split-off of the *Post* cereals business. The results of the *Post* cereals business were reflected as discontinued operations on the consolidated statement of earnings and prior period results were restated in a consistent manner.

In 2008, we implemented a new operating structure. As a result, we began reporting the results of operations under this new structure in the first quarter of 2008 and restated results from prior periods in a consistent manner. The changes were:

- U.S. Cheese was organized as a standalone operating segment in order to create a more self-contained and integrated business unit in support of faster growth.
- Our macaroni and cheese category, as well as other dinner products, were moved from our U.S. Convenient Meals segment to our U.S. Grocery segment to take advantage of operating synergies.
- Canada and North America Foodservice were structured as a standalone reportable segment. This change allows us to deliver on the unique requirements of the Canadian consumer and customer while maintaining strong North American linkages to innovation, new product development and new capabilities to drive our business. Furthermore, it allows us to manage strategic customer decisions and continue to capture cross-border sales and marketing synergies within our Foodservice operations.

Management uses segment operating income to evaluate segment performance and allocate resources. Management believes it is appropriate to disclose this measure to help investors analyze segment performance and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which is a component of cost of sales), general corporate expenses and amortization of intangibles for all periods presented. In the second quarter of 2008, we began excluding unrealized gains and losses on hedging activities from segment operating income in order to provide better transparency of our segment operating results. Once realized, the gains and losses on hedging activities are recorded within segment operating results. We centrally manage interest and other 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. We use the same accounting policies for the segments as those described in Note 1, *Summary of Significant Accounting Policies*.

Segment data were:

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions; 2007 & 2006 restated)		
Net revenues:			
Kraft North America:			
U.S. Beverages	$ 3,001	$ 2,990	$ 2,886
U.S. Cheese	4,007	3,745	3,544
U.S. Convenient Meals	4,240	3,905	3,697
U.S. Grocery	3,389	3,277	3,225
U.S. Snacks	5,025	4,879	4,834
Canada & N.A. Foodservice	4,294	4,080	3,874
Kraft International:			
European Union	11,259	7,951	6,669
Developing Markets	6,986	5,307	4,527
Net revenues	$ 42,201	$ 36,134	$ 33,256

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions; 2007 & 2006 restated)		
Earnings from continuing operations before income taxes:			
Operating income:			
Kraft North America:			
U.S. Beverages	$ 370	$ 316	$ 204
U.S. Cheese	622	400	660
U.S. Convenient Meals	399	387	412
U.S. Grocery	1,002	1,012	1,254
U.S. Snacks	530	607	444
Canada & N.A. Foodservice	438	404	426
Kraft International:			
European Union	412	569	547
Developing Markets	585	474	403
Unrealized (losses) / gains on hedging activities	(205)	16	–
General corporate expenses	(313)	(206)	(189)
Amortization of intangibles	(23)	(13)	(7)
Operating income	3,817	3,966	4,154
Interest and other debt expense, net	(1,240)	(604)	(510)
Earnings from continuing operations before income taxes	$ 2,577	$ 3,362	$ 3,644

Our largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 16% of consolidated net revenues in 2008, 15% in 2007 and 14% in 2006. These net revenues occurred primarily in the Kraft North America segments.

In 2008, unrealized losses on hedging activities increased $221 million, due primarily to energy derivatives, including heating oil (used primarily to hedge transportation costs) and natural gas contracts. In addition, general corporate expenses (which is a component of marketing, administration and research costs) increased $107 million in 2008, primarily due to charges for legal matters related to certain of our U.S. and European operations, including U.S. coffee operations.

We incurred asset impairment, exit and implementation costs of $1,129 million in 2008, $579 million in 2007 and $1,097 million in 2006. Refer to Note 6, *Asset Impairment, Exit and Implementation Costs*, for a breakout of charges by segment.

As described in Note 2, *Acquisitions and Divestitures*, in the third quarter of 2006, we acquired the Spanish and Portuguese operations of UB. The redemption of our outstanding investment in UB resulted in a gain on closing of $251 million. This gain is included in segment operating income of the European Union segment. In addition, we divested several operations, and recorded net (losses) / gains on these divestitures in segment operating income as follows:

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions; 2007 & 2006 restated)		
Kraft North America:			
U.S. Beverages	$ (1)	$ (5)	$ (95)
U.S. Cheese	–	–	–
U.S. Convenient Meals	–	–	–
U.S. Grocery	–	–	226
U.S. Snacks	–	12	(5)
Canada & N.A. Foodservice	–	–	(9)
Kraft International:			
European Union	(91)	–	–
Developing Markets	–	8	–
(Losses) / gains on divestitures, net	$ (92)	$ 15	$ 117

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

	2008	2007
	(in millions)	
Total assets:		
Kraft North America:		
U.S. Beverages	$ 2,302	$ 2,361
U.S. Cheese	4,499	4,423
U.S. Convenient Meals	2,842	2,784
U.S. Grocery	5,481	5,480
U.S. Snacks	16,345	18,277
Canada & N.A. Foodservice	4,864	5,306
Kraft International:		
European Union	16,722	19,353
Developing Markets	6,862	6,919
Unallocated assets [1]	3,161	3,090
Total assets	$ 63,078	$ 67,993

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

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions; 2007 & 2006 restated)		
Depreciation expense:			
Kraft North America:			
U.S. Beverages	$ 68	$ 57	$ 62
U.S. Cheese	66	62	67
U.S. Convenient Meals	78	81	77
U.S. Grocery	78	63	64
U.S. Snacks	129	140	123
Canada & N.A. Foodservice	93	96	99
Kraft International:			
European Union	308	232	232
Developing Markets	117	98	95
Total – continuing operations	937	829	819
Discontinued operations	26	44	65
Total depreciation expense	$ 963	$ 873	$ 884

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions; 2007 & 2006 restated)		
Capital expenditures:			
Kraft North America:			
U.S. Beverages	$ 110	$ 90	$ 171
U.S. Cheese	97	115	115
U.S. Convenient Meals	200	207	148
U.S. Grocery	98	83	77
U.S. Snacks	87	99	59
Canada & N.A. Foodservice	122	136	108
Kraft International:			
European Union	341	225	240
Developing Markets	312	256	217
Total – continuing operations	1,367	1,211	1,135
Discontinued operations	–	30	34
Total capital expenditures	$ 1,367	$ 1,241	$ 1,169

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

	For the Year Ended December 31, 2008		
	Kraft North America	Kraft International	Total
	(in millions)		
Consumer Sector:			
Snacks	$ 5,951	$ 9,963	$ 15,914
Beverages	3,509	4,972	8,481
Cheese	5,525	1,937	7,462
Grocery	3,211	960	4,171
Convenient Meals	5,760	413	6,173
Total net revenues	$ 23,956	$ 18,245	$ 42,201

	For the Year Ended December 31, 2007		
	Kraft North America	Kraft International	Total
	(in millions; as restated)		
Consumer Sector:			
Snacks	$ 5,704	$ 5,657	$ 11,361
Beverages	3,499	4,562	8,061
Cheese	5,199	1,729	6,928
Grocery	3,138	882	4,020
Convenient Meals	5,336	428	5,764
Total net revenues	$ 22,876	$ 13,258	$ 36,134

	For the Year Ended December 31, 2006		
	Kraft North America	Kraft International	Total
	(in millions; as restated)		
Consumer Sector:			
Snacks	$ 5,490	$ 4,537	$ 10,027
Beverages	3,351	3,973	7,324
Cheese	4,857	1,557	6,414
Grocery	3,226	757	3,983
Convenient Meals	5,136	372	5,508
Total net revenues	$ 22,060	$ 11,196	$ 33,256

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

	For the Years Ended December 31,		
	2008	2007	2006
	(in millions; 2007 & 2006 restated)		
Net revenues:			
United States	$ 21,436	$ 20,540	$ 19,902
Europe	13,139	9,381	7,816
Other	7,626	6,213	5,538
Total net revenues	$ 42,201	$ 36,134	$ 33,256

	2008	2007
	(in millions)	
Long-lived assets:		
United States	$ 5,393	$ 6,075
Europe	3,301	3,653
Other	2,455	2,487
Total long-lived assets	$ 11,149	$ 12,215
Total assets:		
United States	$ 37,440	$ 38,296
Europe	18,761	21,039
Other	6,877	8,658
Total assets	$ 63,078	$ 67,993

Note 18. Quarterly Financial Data (Unaudited):

	2008 Quarters			
	First	Second	Third	Fourth
	(in millions, except per share data; first & second quarters restated)			
Net revenues	$ 10,102	$ 10,870	$ 10,462	$ 10,767
Gross profit	$ 3,361	$ 3,894	$ 3,366	$ 3,394
Earnings from continuing operations	$ 553	$ 664	$ 546	$ 86
Earnings and gain from discontinued operations, net of income taxes	55	68	852	77
Net earnings	$ 608	$ 732	$ 1,398	$ 163
Weighted average shares for diluted EPS	1,534	1,524	1,496	1,476
Per share data:				
Basic EPS:				
Continuing operations	$ 0.36	$ 0.44	$ 0.37	$ 0.06
Discontinued operations	0.04	0.05	0.58	0.05
Net earnings	$ 0.40	$ 0.49	$ 0.95	$ 0.11
Diluted EPS:				
Continuing operations	$ 0.36	$ 0.44	$ 0.36	$ 0.06
Discontinued operations	0.04	0.04	0.57	0.05
Net earnings	$ 0.40	$ 0.48	$ 0.93	$ 0.11
Dividends declared	$ 0.27	$ 0.27	$ 0.29	$ 0.29
Market price – high	$ 32.85	$ 32.99	$ 34.97	$ 34.05
– low	$ 28.63	$ 28.33	$ 28.04	$ 24.75

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

During the fourth quarter of 2008, we increased our gain on discontinued operations by $77 million to correct for a deferred tax liability that should have been written-off upon the split-off of the *Post* cereals business. As such, our gain from the split-off of the *Post* cereals business was $937 million.

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

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

	2007 Quarters			
	First	Second	Third	Fourth
	(in millions, except per share data; as restated)			
Net revenues	$ 8,320	$ 8,911	$ 8,760	$ 10,143
Gross profit	$ 2,930	$ 3,118	$ 2,925	$ 3,104
Earnings from continuing operations	$ 650	$ 640	$ 535	$ 535
Earnings and gain from discontinued operations, net of income taxes	52	67	61	50
Net earnings	$ 702	$ 707	$ 596	$ 585
Weighted average shares for diluted EPS	1,636	1,606	1,576	1,552
Per share data:				
Basic EPS:				
Continuing operations	$ 0.40	$ 0.40	$ 0.34	$ 0.35
Discontinued operations	0.03	0.05	0.04	0.03
Net earnings	$ 0.43	$ 0.45	$ 0.38	$ 0.38
Diluted EPS:				
Continuing operations	$ 0.40	$ 0.40	$ 0.34	$ 0.34
Discontinued operations	0.03	0.04	0.04	0.04
Net earnings	$ 0.43	$ 0.44	$ 0.38	$ 0.38
Dividends declared	$ 0.25	$ 0.25	$ 0.27	$ 0.27
Market price – high	$ 36.26	$ 37.20	$ 36.85	$ 35.29
– low	$ 29.95	$ 30.18	$ 30.51	$ 32.09

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

During 2007, we recorded the following pre-tax charges / (gains) in earnings from continuing operations:

	2007 Quarters			
	First	Second	Third	Fourth
	(in millions; as restated)			
Asset impairment and exit costs	$ 67	$ 107	$ 173	$ 93
(Gains) / losses on divestitures, net	(12)	(8)	–	5
	$ 55	$ 99	$ 173	$ 98

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

Management, together with our CEO and CFO, evaluated the changes in our internal control over financial reporting during the quarter ended December 31, 2008. In 2008, we began implementing "Catalyst," a business initiative to simplify and harmonize our systems processes. This multi-year program includes the delivery of SAP enterprise software applications and business solution. During the quarter ended December 31, 2008, we transitioned some of our processes and procedures into the SAP control environment. As we migrate to the SAP environment, our management ensures that our key controls are mapped to applicable SAP controls, tests transition controls prior to the migration date of those controls, and as appropriate, maintains and evaluates controls over the flow of information to and from SAP. We expect the transition period to be completed in 2011. We determined that there were no other changes in our internal control over financial reporting during the quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Management on Internal Control Over Financial Reporting

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

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

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

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting.

Management reviewed the results of our assessment with the Audit Committee of our Board of Directors. Based on this assessment, management determined that, as of December 31, 2008, we maintained effective internal control over financial reporting.

PricewaterhouseCoopers LLP, independent registered public accounting firm, who audited and reported on the consolidated financial statements included in this report, has audited our internal control over financial reporting as of December 31, 2008.

February 19, 2009

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Kraft Foods Inc. and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans in 2006 and 2008 and the manner in which it accounts for uncertain tax positions and the timing of its annual goodwill and indefinite-lived intangible assets impairment tests in 2007.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
February 19, 2009

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this Item 10 is included under the headings “Election of Directors,” “Corporate Governance,” “Audit Committee Matters” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for our Annual Meeting of Shareholders scheduled to be held on May 20, 2009 (“2009 Proxy Statement”). All of this information is incorporated by reference into this Annual Report.

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

On June 12, 2008, we filed our Annual CEO Certification as required by Section 303A.12 of the NYSE Listed Company Manual.

Item 11. Executive Compensation.

Information required by this Item 11 is included under the headings “Compensation Committee Matters,” “Compensation Discussion and Analysis” and “Executive Compensation Tables” in our 2009 Proxy Statement. All of this information is incorporated by reference into this Annual Report.

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

The number of shares to be issued upon exercise or vesting of awards issued under, and the number of shares remaining available for future issuance under, our equity compensation plans at December 31, 2008 were:

Equity Compensation Plan Information

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by security holders	44,452,148	$ 24.74	95,488,159

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

Information related to security ownership of certain beneficial owners and management is in our 2009 Proxy Statement under the heading “Ownership of Equity Securities,” which is incorporated by reference into this Annual Report.

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

Information about certain relationships and related transactions is in our 2009 Proxy Statement under the heading “Certain Relationships and Transactions with Related Persons” and information about director independence is in our 2009 Proxy Statement under the heading “Corporate Governance - Director Independence.” All of this information is incorporated by reference into this Annual Report.

Item 14. Principal Accountant Fees and Services.

Information about our principal accountant fees is in our 2009 Proxy Statement under the heading “Audit Committee Matters - Independent Auditors’ Fees,” and information about the Audit Committee’s pre-approval policies and procedures is in our 2009 Proxy Statement under the heading “Audit Committee Matters - Pre-Approval Policies.” All of this information is incorporated by reference into this Annual Report.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Index to Consolidated Financial Statements and Schedules

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

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

2.1	RMT Transaction Agreement, among the Registrant, Cable Holdco, Inc., Ralcorp Holdings, Inc. and Ralcorp Mailman LLC, dated as of November 15, 2007 (incorporated by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on November 20, 2007).
2.2	Master Sale and Purchase Agreement, between Groupe Danone S.A. and Kraft Foods Global, Inc., dated October 29, 2007 (incorporated by reference to Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).*
3.1	Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant’s Registration Statement on Form S-1 (Reg. No. 333-57162) filed with the SEC on March 16, 2001).
3.2	Articles of Amendment to the Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant’s Registration Statement on Form S-1 (Reg. No. 333-57162) filed with the SEC on March 16, 2001).
3.3	Amended and Restated By-Laws of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on February 2, 2009).
4.1	The Registrant agrees to furnish copies of any instruments defining the rights of holders of long-term debt of the Registrant and its consolidated subsidiaries that does not exceed 10 percent of the total assets of the Registrant and its consolidated subsidiaries to the SEC upon request.
4.2	Indenture, by and between the Registrant and Deutsche Bank Trust Company Americas (as successor trustee to The Bank of New York and The Chase Manhattan Bank), dated as of October 17, 2001 (incorporated by reference to Exhibit 4.1 to the Registrant’s Registration Statement on Form S-3 (Reg. No. 333-86478) filed with the SEC on April 18, 2002).
10.1	Agreement, by and among the Registrant, Trian Fund Management, L.P. and the other entities and persons signatory thereto, dated as of November 7, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on November 7, 2007).
10.2	$4.5 Billion 5-Year Revolving Credit Agreement, by and among the Registrant, the initial lenders named therein, JPMorgan Chase Bank, N.A., Citibank, N.A., Credit Suisse First Boston, Cayman Islands Branch, Deutsche Bank Securities Inc., ABN AMRO Bank N.V., BNP Paribas, HSBC Bank USA, National Association and UBS Securities LLC, dated as of April 15, 2005 (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on April 21, 2005).
10.3	Credit Agreement relating to a EURO 5,300,000,000 Bridge Loan Agreement, by and among the Registrant, the initial lenders named therein, Goldman Sachs Credit Partners L.P., JPMorgan Chase Bank, N.A., Credit Suisse, Cayman Islands Branch, HSBC Bank USA, National Association, UBS Securities LLC and Societe Generale, dated as of October 12, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).

10.4	Agreement Relating to United Biscuits Southern Europe, among Kraft Foods International, Inc. and United Biscuits Group (Investments) Limited, Deluxestar Limited, UB Overseas Limited, UB investments (Netherlands) B.V. and Nabisco Euro Holdings LTD, dated as of July 8, 2006 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 13, 2006).
10.5	Master Professional Services Agreement, among Kraft Foods Global, Inc., EDS Information Services, L.L.C. and Electronic Data Systems Corporation, dated as of April 27, 2006 (incorporated by reference to Exhibit 10.25 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).*
10.6	Tax Sharing Agreement, by and between the Registrant and Altria Group, Inc., dated as of March 30, 2007 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on March 30, 2007).
10.7	Kraft Foods Inc. 2005 Performance Incentive Plan, amended as of December 31, 2008.+
10.8	Form of Kraft Foods Inc. 2005 Performance Incentive Plan Restricted Stock Agreement (Executive Sign-on) (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).+
10.9	Form of Kraft Foods Inc. 2005 Performance Incentive Plan Restricted Stock Agreement.+
10.10	Form of Kraft Foods Inc. 2005 Performance Incentive Plan Non-Qualified US Stock Option Award Agreement.+
10.11	Kraft Foods Inc. Supplemental Benefits Plan I (including First Amendment adding Supplement A) (incorporated by reference to Exhibit 10.7 to the Registrant's Amendment No. 1 to the Registration Statement on Form S-1/A filed with the SEC on May 2, 2001).+
10.12	Kraft Foods Inc. Supplemental Benefits Plan II (incorporated by reference to Exhibit 10.8 to the Registrant's Amendment No. 1 to the Registration Statement on Form S-1/A filed with the SEC on May 2, 2001).+
10.13	Form of Employee Grantor Trust Enrollment Agreement (incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K of Altria Group, Inc. for the year ended December 31, 1995).+
10.14	Kraft Foods Inc. 2006 Stock Compensation Plan for Non-Employee Directors, amended as of December 31, 2008.+
10.15	Kraft Foods Inc. 2001 Compensation Plan for Non-Employee Directors, amended as of December 31, 2008.+
10.16	Kraft Foods Inc. Change in Control Plan for Key Executives, amended as of December 31, 2008.+
10.17	Kraft Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 30, 2008).+
10.18	Kraft Executive Deferred Compensation Plan Adoption Agreement, amended as of November 3, 2008.+
10.19	Offer of Employment Letter, between the Registrant and Irene B. Rosenfeld, dated June 26, 2006 (incorporated by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).+
10.20	Amendment to Offer of Employment Letter, between the Registrant and Irene B. Rosenfeld, amended as of December 31, 2008.+
10.21	Offer of Employment Letter, between the Registrant and Timothy R. McLevish, dated August 22, 2007 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).+
10.22	Amendment to Offer of Employment Letter, between the Registrant and Timothy R. McLevish, amended as of December 31, 2008.+
10.23	Offer of Employment Letter, between the Registrant and Sanjay Khosla, dated December 1, 2006.+
10.24	Amendment to Offer of Employment Letter, between the Registrant and Sanjay Khosla, amended as of December 31, 2008.+
10.25	Offer of Employment Letter, between the Registrant and Michael Osanloo, dated March 10, 2008.+
10.26	Amendment to Offer of Employment Letter, between the Registrant and Michael Osanloo, amended as of December 31, 2008.+
10.27	Offer of Employment Letter, between the Registrant and Michael A. Clarke, dated as of December 11, 2008.+
10.28	Form of Indemnification Agreement for Non-Employee Directors.+
12.1	Computation of Ratios of Earnings to Fixed Charges.
21.1	Subsidiaries of the Registrant.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
31.1	Certification of the Registrant's Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Registrant's Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Registrant's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

\+ Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

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

KRAFT FOODS INC.

By: /S/ TIMOTHY R. MCLEVISH
(Timothy R. McLevish,
Executive Vice President
and Chief Financial Officer)

Date: February 27, 2009

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

Signature	Title	Date
/S/ IRENE B. ROSENFELD (Irene B. Rosenfeld)	Director, Chairman and Chief Executive Officer	February 27, 2009
/S/ TIMOTHY R. MCLEVISH (Timothy R. McLevish)	Executive Vice President and Chief Financial Officer	February 27, 2009
/S/ PAMELA E. KING (Pamela E. King)	Senior Vice President and Corporate Controller	February 27, 2009
/S/ AJAY BANGA (Ajay Banga)	Director	February 27, 2009
(Jan Bennink)	Director	
/S/ MYRA M. HART (Myra M. Hart)	Director	February 27, 2009
/S/ LOIS D. JULIBER (Lois D. Juliber)	Director	February 27, 2009
/S/ MARK D. KETCHUM (Mark D. Ketchum)	Director	February 27, 2009
/S/ RICHARD LERNER, M.D. (Richard Lerner, M.D.)	Director	February 27, 2009
/S/ JOHN C. POPE (John C. Pope)	Director	February 27, 2009
/S/ FREDRIC G. REYNOLDS (Fredric G. Reynolds)	Director	February 27, 2009
/S/ DEBORAH C. WRIGHT (Deborah C. Wright)	Director	February 27, 2009
/S/ FRANK G. ZARB (Frank G. Zarb)	Director	February 27, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

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

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 19, 2009 appearing in the 2008 Annual Report on Form 10-K of Kraft Foods Inc. also included an audit of the financial statement schedule listed in Item 15(a) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
February 19, 2009

Kraft Foods Inc. and Subsidiaries
Valuation and Qualifying Accounts
for the years ended December 31, 2008, 2007 and 2006
(in millions)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts (a)	Deductions (b)	Balance at End of Period
2008:					
Allowance for discounts	$ 5	$ 73	$ 17	$ 67	$ 28
Allowance for doubtful accounts	118	47	(22)	15	128
Allowance for deferred taxes	105	11	(16)	16	84
	$ 228	$ 131	$ (21)	$ 98	$ 240
2007:					
Allowance for discounts	$ 7	$ 24	$ –	$ 26	$ 5
Allowance for doubtful accounts	103	26	18	29	118
Allowance for deferred taxes	100	52	10	57	105
	$ 210	$ 102	$ 28	$ 112	$ 228
2006:					
Allowance for discounts	$ 11	$ 3	$ –	$ 7	$ 7
Allowance for doubtful accounts	107	12	4	20	103
Allowance for deferred taxes	135	3	1	39	100
	$ 253	$ 18	$ 5	$ 66	$ 210

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

Exhibit 10.7

KRAFT FOODS INC. 2005 PERFORMANCE INCENTIVE PLAN
(Amended December 31, 2008)

Section 1. Purpose; Definitions.

The purpose of the Plan is to support the Company's ongoing efforts to develop and retain world-class leaders and to provide the Company with the ability to provide incentives more directly linked to the profitability of the Company's businesses and increases in shareholder value.

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

(a) "Annual Incentive Award" means an Incentive Award made pursuant to Section 5(a)(vi) with a Performance Cycle of one year or less.

(b) "Awards" mean grants under the Plan or, to the extent relevant, under any Prior Plan, of Incentive Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Deferred Stock Units, or Other Stock-Based Awards.

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

(d) "Cause" means termination because of:

- (i) Continued failure to substantially perform the Participant's job's duties (other than resulting from incapacity due to disability);
- (ii) Gross negligence, dishonesty, or violation of any reasonable rule or regulation of the Company where the violation results in significant damage to the Company; or
- (iii) Engaging in other conduct which adversely reflects on the Company in any material respect.

(e) "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 such Award as 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 material reduction in the Participant's base salary, annual incentive or long-term incentive opportunity as in effect immediately prior to the Change in Control, 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 is designated as being an Incentive Stock Option and 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 such Award as 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.

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, the full number of shares of Common Stock with respect to which the Award is measured will nonetheless be deemed distributed for purposes of determining the maximum number of shares remaining available for delivery under the Plan. Similarly, any shares of Common Stock that are used by a Participant as full or partial payment of withholding or other taxes or as payment for the exercise or conversion price of an Award under the Plan will be deemed distributed for purposes of determining the maximum number of shares remaining available for delivery under the Plan.

(b) Adjustments for Certain Corporate Transactions

(i) In the event of any merger, share exchange, reorganization, consolidation, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants or other similar transaction or event affecting the Common Stock in any case after adoption of the Plan by the Board, the Committee 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, provided that any such payment shall be exempt from or comply with the requirements of Section 409A of the Code.

(iv) In the event of any conflict between this Section 4(b) and other provisions of the Plan or the Prior Plan, the provisions of this section shall control. Receipt of an Award under the Plan shall constitute an acknowledgement by the Participant receiving such Award of the Committee's ability to adjust Awards under the Prior Plans in a manner consistent with this Section 4(b).

Section 5. Awards.

(a) General. The types of Awards that may be granted under the Plan are set forth below. Awards may be granted singly, in combination or in tandem with other Awards. All Award agreements are incorporated in and constitute part of the Plan.

(i) Stock Options. A Stock Option represents the right to purchase a share of Stock at a predetermined grant price. Stock Options granted under the Plan may be in the form of Incentive Stock Options or Nonqualified Stock Options, as specified in the Award agreement but no Stock Option designated as an Incentive Stock Option shall be invalid in the event that it fails to qualify as an Incentive Stock Option. The term of each Stock

Option shall be set forth in the Award agreement, but no Stock Option shall be exercisable more than ten years after the grant date. The grant price per share of Common Stock purchasable under a Stock Option shall not be less than 100% of the Fair Market Value on the date of grant. Subject to the applicable Award agreement, Stock Options may be exercised, in whole or in part, by giving written notice of exercise specifying the number of shares to be purchased. Such notice shall be accompanied by payment in full of the purchase price by certified or bank check or such other instrument as the Company may accept (including a copy of instructions to a broker or bank acceptable to the Company to deliver promptly to the Company an amount sufficient to pay the purchase price). Unless otherwise determined by the Committee, payment in full or in part may also be made in the form of Common Stock already owned by the Participant valued at Fair Market Value on the day preceding the date of exercise; provided, however, that such Common Stock shall not have been acquired by the Participant within the six months following the exercise of a Stock Option or 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 cash payment, shares of Common Stock, or both (as determined by the Committee), with a value equal to the Spread Value on the date the SAR is exercised. The grant price of 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.

(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) Except as otherwise specified in an Award Agreement, any of the foregoing Change in Control provisions that change the timing of payment of an Award shall not be applicable to an Award subject to Section 409A of the Code. For the avoidance of doubt, the foregoing is applicable to Awards issued before and existing on the date this amendment to the Plan is being made as well as to Awards issued after such date.

(viii) 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; provided, however, that any Stock Options, Stock Appreciation Rights, and similar Other Stock-Based Awards that are not otherwise subject to Section 409A of the Code but would be subject to Section 409A of the Code if a deferral were permitted, shall not be subject to any deferral. It also may provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in Common Stock equivalents. Any deferral and related terms and conditions shall comply with Section 409A of the Code and any regulations or other guidance thereunder.

Section 9. Dividends and Dividend Equivalents.

The Committee may provide that any Awards under the Plan 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) The Plan and all Awards made hereunder shall be interpreted, construed and operated to reflect the intent of the Company that all aspects of the Plan and the

Awards shall be interpreted either to be exempt from the provisions of Section 409A of the Code or, to the extent subject to Section 409A of the Code, comply with Section 409A of the Code and any regulations and other guidance thereunder. This Plan may be amended at any time, without the consent of any party, to avoid the application of Section 409A of the Code in a particular circumstance or that is necessary or desirable to satisfy any of the requirements under Section 409A of the Code, but the Company shall not be under any obligation to make any such amendment. Nothing in the Plan shall provide a basis for any person to take action against the Company or any affiliate based on matters covered by Section 409A of the Code, including the tax treatment of any amount paid or award made under the Plan, and neither the Company nor any of its affiliates shall under any circumstances have any liability to any participant or his estate for any taxes, penalties or interest due on amounts paid or payable under the Plan, including taxes, penalties or interest imposed under Section 409A of the Code.

(h) If any provision of the Plan is held invalid or unenforceable, the invalidity or unenforceability shall not affect the remaining parts of the Plan, and the Plan shall be enforced and construed as if such provision had not been included.

(i) The Plan was approved by stockholders and became effective on May 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 10.9

KRAFT FOODS INC.
2005 PERFORMANCE INCENTIVE PLAN

RESTRICTED STOCK AGREEMENT
FOR KRAFT COMMON STOCK

KRAFT FOODS INC., a Virginia corporation, (the "Company"), hereby grants to the employee (the "Employee") named in the Award Statement (the "Award Statement") attached hereto, as of the date set forth in the Award Statement (the "Award Date") pursuant to the provisions of the Kraft Foods Inc. 2005 Performance Incentive Plan (the "Plan"), a Restricted Stock Award (the "Award") with respect to the number of shares (the "Restricted Shares") of the Common Stock of the Company ("Common Stock") upon and subject to the restrictions, terms and conditions set forth below, in the Award Statement and in the Plan. Capitalized terms not defined in this Restricted Stock Agreement (the "Agreement") shall have the meanings specified in the Plan.

1. Restrictions. Subject to paragraph 2 below, the restrictions on the Restricted Shares shall lapse and the Restricted Shares shall vest on the date set forth in the Restricted Stock Award section of the Award Statement (the "Vesting Date"), provided that the Employee remains an employee of the Kraft Group (as defined below in paragraph 13) during the entire period (the "Restriction Period") commencing on the Award Date set forth in the Award Statement and ending on the Vesting Date.

2. Termination of Employment During Restriction Period. In the event of the termination of the Employee's employment with the Kraft Group prior to the Vesting Date other than by death, Disability, or Normal Retirement (as defined below in paragraph 13) or unless it is otherwise determined by (or pursuant to authority granted by) the Committee administering the Plan (the "Committee"), the Restricted Shares shall not vest and the Employee shall forfeit all rights to the Restricted Shares. Any Restricted Shares that are forfeited shall be transferred directly to the Company. If death, Disability, or Normal Retirement of the Employee occurs prior to the Vesting Date, the restrictions on the Restricted Shares shall immediately lapse and the Restricted Shares shall become fully vested on such date of death, Disability, or Normal Retirement.

3. Voting and Dividend Rights. During the Restriction Period, the Employee shall have the right to vote the Restricted Shares and to receive any dividends and other distributions with respect to the Restricted Shares, as paid, less applicable withholding taxes (it being understood that such dividends will generally be taxable as ordinary compensation income during such Restriction Period) unless and until such Restricted Shares are forfeited pursuant to paragraph 2 hereof.

4. Custody and Delivery of Certificates Representing Shares. The shares of Common Stock subject to the Award may be held by a custodian in book entry form with the restrictions on such shares duly noted or, alternatively, the Company may hold the certificate or certificates representing such shares, in either case until the Award shall have vested, in whole or in part, pursuant to paragraphs 1 and 2 hereof. As soon as practicable after the Restricted Shares

shall have vested pursuant to paragraphs 1 and 2 hereof, subject to paragraph 7 hereof, the restrictions shall be removed from those of such shares that are held in book entry form, and the Company shall deliver to the Employee any certificate or certificates representing those of such shares that are held by the Company and destroy or return to the Employee the stock power or powers relating to such shares. If such stock power or powers also relate to unvested shares, the Company may require, as a condition precedent to the delivery of any certificate pursuant to this paragraph 4, the execution and delivery to the Company of one or more irrevocable stock powers relating to such unvested shares.

5. Transfer Restrictions. This Award and the Restricted Shares (until they become unrestricted pursuant to the terms hereof) are non-transferable and may not be assigned, hypothecated or otherwise pledged and shall not be subject to execution, attachment or similar process. Upon any attempt to effect any such disposition, or upon the levy of any such process, the Award shall immediately become null and void and the Restricted Shares shall be forfeited.

6. Withholding Taxes. The Company is authorized to satisfy the withholding taxes arising from the granting, vesting or payment of this Award, as the case may be, by deducting the number of Restricted Shares having an aggregate value equal to the amount of withholding taxes due from the total number of Restricted Shares awarded, vested, paid or otherwise becoming subject to current taxation. Further, the Company is authorized to satisfy the withholding taxes arising from the granting or vesting of this Award, as the case may be, by, as agent for the Employee, withholding the number of Restricted Shares having an aggregate value in the amount of withholding taxes due, and instructing the Restricted Stock Award administrator to sell such Restricted Shares on the open market as soon as practicable, and remitting the proceeds to the appropriate governmental authorities, except to the extent that such a sale would violate any Federal Securities law or other applicable law. The Company is also authorized to satisfy the withholding taxes arising from the granting or vesting of this Award, or hypothetical withholding tax amounts if the Employee is covered under a Company tax equalization policy, as the case may be, by the remittance of the required amounts from any proceeds realized upon the open-market sale of vested Common Stock by the Employee. Furthermore, the Company is authorized to satisfy the withholding taxes arising from the granting or vesting of this Award, as the case may be, through any other method established by the Company. Restricted Shares deducted from this Award in satisfaction of withholding tax requirements shall be valued at the Fair Market Value of the Common Stock received in payment of vested Restricted Shares on the date as of which the amount giving rise to the withholding requirement first became includible in the gross income of the Employee under applicable tax laws. If the Employee is covered by a Company tax equalization policy, the Employee also agrees to pay to the Company any additional tax obligation calculated and paid in accordance with such tax equalization policy. If the Employee becomes subject to tax in more than one jurisdiction between the date of grant and the date of any relevant taxable event, the Employee acknowledges that the Company and/or the Employee’s employer (or former employer, as applicable) may be required to withhold or account for (including report) taxes in more than one jurisdiction. To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates.

7. Death of Employee. If any of the Restricted Shares shall vest upon the death of the Employee, they shall be registered in the name of the estate of the Employee.

8. Original Issue or Transfer Taxes. The Company shall pay all original issue or transfer taxes and all fees and expenses incident to such delivery, except as otherwise provided in paragraph 6.

9. Successors. Whenever the word “Employee” is used herein under circumstances such that the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom the Restricted Stock may be transferred pursuant to this Agreement, it shall be deemed to include such person or persons. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall acquire any rights hereunder in accordance with this Agreement, the Award Statement or the Plan

10. Award Confers No Rights to Continued Employment - Nature of the Grant. Nothing contained in the Plan or this Agreement shall give the Employee the right to be retained in the employment of any member of the Kraft Group or affect the right of any such employer to terminate the Employee. The adoption and maintenance of the Plan shall not constitute an inducement to, or condition of, the employment of the Employee. Further, the Employee acknowledges and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the grant of any Restricted Stock is voluntary and occasional and does not create any contractual or other right to receive future grants of awards, or benefits in lieu of awards, even if awards have been granted repeatedly in the past;

(c) all decisions with respect to future Restricted Stock grants, if any, will be at the sole discretion of the Board of Directors of the Company or the Committee;

(d) the Employee is voluntarily participating in the Plan;

(e) the Restricted Stock is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to any member of the Kraft Group, and which is outside the scope of the Employee’s employment contract, if any;

(f) the Restricted Stock is not intended to replace any pension rights or compensation;

(g) the Restricted Stock is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be any member of the Kraft Group;

(h) in the event that the Employee is not an employee of any member of the Kraft Group, the Restricted Stock grant and the Employee’s participation in the Plan will not be interpreted to form an employment contract or relationship with the Kraft Group; and furthermore, the Award grant will not be interpreted to form an employment contract with any member of the Kraft Group;

(i) the future value of the underlying shares of Common Stock is unknown and cannot be predicted with certainty;

(j) if the Employee's Restricted Shares vest and the Employee obtains shares of Common Stock, the value of those shares of Common Stock acquired upon vesting may increase or decrease in value;

(k) in consideration of the grant of the Restricted Stock, no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock resulting from the termination of Employee's employment by the Company or the Employee's employer and the Employee irrevocably releases the Kraft Group from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, the Employee shall be deemed irrevocably to have waived the Employee's entitlement to pursue such claim;

(l) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Employee's participation in the Plan, or the Employees' acquisition or sale of the underlying shares of Common Stock;

(m) the Employee is hereby advised to consult with the Employee's own personal tax, legal and financial advisors regarding the Employee's participation in the Plan before taking any action related to the Plan; and

(n) the Restricted Stock and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

11. Interpretation. The terms and provisions of the Plan (a copy of which will be furnished to the Employee upon written request to the Office of the Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, Illinois 60093) are incorporated herein by reference. To the extent any provision of this Agreement is inconsistent or in conflict with any term or provision of the Plan, the Plan shall govern. The Committee shall have the right to resolve all questions which may arise in connection with the Award or this Agreement. Any interpretation, determination or other action made or taken by the Committee regarding the Plan or this Agreement shall be final, binding and conclusive

12. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Virginia, U.S.A., without regard to choice of laws principles thereof.

13. Miscellaneous Definitions. For purposes of this Agreement, (a) the term "Disability" means permanent and total disability as determined under procedures established by the Company for purposes of the Plan, and (b) the term "Normal Retirement" means retirement from active employment under a pension plan of the Kraft Group or under an employment contract with any member of the Kraft Group, on or after the date specified as the normal retirement age in the pension plan or employment contract, if any, under which the Employee is at that time accruing pension benefits for his or her current service (or, in the absence of a

specified normal retirement age, the age at which pension benefits under such plan or contract become payable without reduction for early commencement and without any requirement of a particular period of prior service). In any case in which (i) the meaning of “Normal Retirement” is uncertain under the definition contained in the prior sentence or (ii) a termination of employment at or after age 65 would not otherwise constitute “Normal Retirement,” an Employee’s termination of employment shall be treated as a “Normal Retirement” under such circumstances as the Committee, in its sole discretion, deems equivalent to retirement. “Kraft Group” means Kraft Foods Inc. and each of its subsidiaries and affiliates. For purposes of this Agreement, (x) a “subsidiary” includes only any company in which the applicable entity, directly or indirectly, has a beneficial ownership interest of greater than 50 percent and (y) an “affiliate” includes only any company that (A) has a beneficial ownership interest, directly or indirectly, in the applicable entity of greater than 50 percent or (B) is under common control with the applicable entity through a parent company that, directly or indirectly, has a beneficial ownership interest of greater than 50 percent in both the applicable entity and the affiliate.

14. Adjustments. In the event of any merger, share exchange, reorganization, consolidation, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants or other similar transaction or event affecting the Common Stock after the date of this Award, the Board of Directors of the Company shall make adjustments to the number and kind of shares of stock subject to this Award, including, but not limited to, the substitution of equity interests in other entities involved in such transactions, to provide for cash payments in lieu of restricted or unrestricted shares, and to determine whether continued employment with any entity resulting from such a transaction will or will not be treated as continued employment by the Kraft Group, in each case subject to any Board or Committee action specifically addressing any such adjustments, cash payments, or continued employment treatment.

15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means or to request the Employee’s consent to participate in the Plan by electronic means. The Employee hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company

16. Agreement Severable. The provisions of this Agreement are severable and if any one or more provisions are deemed to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nonetheless be binding and enforceable.

17. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Employee’s participation in the Plan and on the Restricted Stock to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require Employee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

IN WITNESS WHEREOF, this Restricted Stock Agreement has been duly executed as of ___________.

KRAFT FOODS INC.

By: ____

Carol J. Ward, Vice President and Corporate Secretary

KRAFT FOODS INC.
2005 PERFORMANCE INCENTIVE PLAN

NON-QUALIFIED US STOCK OPTION AWARD AGREEMENT

KRAFT FOODS INC. (the "Company"), a Virginia corporation, hereby grants to the employee identified in the Award Statement (the "Optionee" identified in the "Award Statement") attached hereto under the Kraft Foods Inc. 2005 Performance Incentive Plan (the "Plan") a non-qualified stock option (the "Option"). The Option entitles the Optionee to exercise up to the aggregate number of shares set forth in the Award Statement (the "Option Shares") of the Company's Common Stock, at the Grant Price per share set forth in the Award Statement (the "Grant Price"). Capitalized terms not otherwise defined in this Non-Qualified US Stock Option Award Agreement (the "Agreement") shall have the meaning set forth in the Plan. The Option is subject to the following terms and conditions:

1. Vesting. Prior to the satisfaction of the Vesting Requirements set forth in the Schedule in the Award Statement (the "Schedule"), the Option Shares may not be exercised except as provided in paragraph 2 below.

2. Vesting Upon Termination of Employment. In the event of the termination of the Optionee's employment with the Kraft Group (as defined below in paragraph 12) prior to satisfaction of the Vesting Requirements other than by reason of Early Retirement (as defined below in paragraph 12) occurring after December 31 of the same year as the date of grant of the Option, Normal Retirement, death or Disability (as defined below in paragraph 12), or as otherwise determined by (or pursuant to authority granted by) the Committee administering the Plan, this Option shall not be exercisable with respect to any of the Option Shares set forth in the Award Statement. If death or Disability of the Optionee occurs prior to satisfaction of the Vesting Requirements, this Option shall become immediately exercisable for 100% of the Option Shares set forth in the Award Statement. If the Optionee's employment with the Kraft Group is terminated by reason of Normal Retirement, or by Early Retirement occurring after December 31 of the same year as the date of grant of the Option, the Option Shares shall continue to become exercisable as set forth on the Schedule as if such Optionee's employment had not terminated.

3. Exercisability Upon Termination of Employment. During the period commencing on the first date that the Vesting Requirements are satisfied (or, such earlier date determined in accordance with Paragraph 2) until and including the Expiration Date set forth in the Schedule, this Option may be exercised in whole or in part with respect to such Option Shares, subject to the following provisions:

(a) In the event that the Optionee's employment is terminated by reason of Early Retirement occurring after December 31 of the same year as the date of grant of the Option, Normal Retirement, death or Disability, such Option Shares may be exercised on or prior to the Expiration Date;

(b) If employment is terminated by the Optionee (other than by Early Retirement occurring after December 31 of the same year as the date of grant of the Option, death, Disability or Normal Retirement), such Option Shares may be exercised for a period of 30 days from the effective date of termination;

(c) If, other than by death, Disability, Normal Retirement, or Early Retirement occurring after December 31 of the same year as the date of grant of the Option, the Optionee's employment is terminated by the Company, a subsidiary or affiliate without cause, such Option Shares may be exercised for a period of 12 months following such termination; provided, however, if the Optionee shall die within such 12-month period, such Option Shares may be exercised for a period of 12 months from the date of death of the Optionee; and

(d) If the Optionee's employment is involuntarily suspended or terminated for cause, no Option Shares may be exercised during the period of suspension, or following such termination of employment.

No provision of this paragraph 3 shall permit the exercise of any Option Shares after the Expiration Date. For purposes of this Agreement, the Optionee's employment shall be deemed to be terminated (i) when he or she is no longer actively employed by the Kraft Group, and (ii) when he or she is no longer actively employed by a corporation, or a parent or subsidiary thereof, substituting a new option for this Option (or assuming this Option) in connection with a merger, consolidation, acquisition of property or stock, separation, split-up, reorganization, liquidation or similar transaction. The Optionee shall not be considered actively employed during any period for which he or she is receiving, or is eligible to receive, salary continuation, notice period payments, or other benefits under the Kraft Foods Inc. Severance Pay Plan, or any similar plan maintained by the Kraft Group or through other such arrangements that may be entered into that give rise to separation or notice pay, except in any case in which the Optionee is eligible for Normal Retirement or Early Retirement upon the expiration of salary continuation or other benefits. Leaves of absence shall not constitute a termination of employment for purposes of this Agreement. Notwithstanding the foregoing provisions and unless otherwise determined by the Company, this Option may only be exercised on a day that the New York Stock Exchange (the "Exchange") is open. Accordingly, if the Expiration Date is a day the Exchange is closed, the Expiration Date shall be the immediately preceding day on which the Exchange is open.

4. Exercise of Option and Withholding Taxes. This Option may be exercised only in accordance with the procedures and limitations, set forth in the Company's Equity Award Guide, as amended from time to time (the "Methods of Exercise").

Regardless of any action the Company or the Optionee's employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding ("Tax-Related Items"), the Optionee hereby acknowledges that the ultimate liability for all Tax-Related Items legally due by the Optionee is and remains the Optionee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Optionee further acknowledges that the Company and/or the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option grant, including the grant, vesting or exercise of the Option, the subsequent sale of Option Shares acquired pursuant to such exercise and the receipt of any dividends; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate Optionee's liability for Tax-Related Items or achieve any particular tax result. If the Optionee becomes subject to tax in more than one jurisdiction (including jurisdictions outside the United States) between the date of grant and the date of any relevant taxable event, the Optionee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for (including report) Tax-Related Items in more than one jurisdiction.

The Optionee acknowledges and agrees that the Company shall not be required to deliver the Option Shares being exercised upon any exercise of this Option unless it has received payment in a form acceptable to the Company for all applicable Tax-Related Items, as well as amounts due the Company as "theoretical taxes" pursuant to the then-current international assignment and tax equalization policies and procedures of the Kraft Group, or arrangements satisfactory to the Company for the payment thereof have been made.

In this regard, Optionee authorizes the Company and/or the Employer, in their sole discretion and without any notice or further authorization by the Optionee, to withhold all applicable Tax-Related Items legally due by the Optionee and any theoretical taxes from Optionee's wages or other cash compensation paid by the Company and/or the Employer or from proceeds of the sale of Option Shares. Alternatively, or in addition, the Company may instruct the broker whom it has selected for this purpose (on the Optionee's behalf and at the Optionee's direction pursuant to this authorization) to sell the Option Shares that Optionee acquires to meet the Tax-Related Items withholding obligation and any theoretical taxes. In addition, unless otherwise determined by the Committee, Tax-Related Items or theoretical taxes may be paid with outstanding shares of the Company's Common Stock, such shares to be valued at Fair Market Value on the exercise date. Finally, the Optionee shall pay to the Company or the Employer any amount of Tax-Related Items and theoretical taxes that the Company or the Employer may be required to withhold as a result of the Optionee's participation in the Plan or the Optionee's exercise of Option Shares that cannot be satisfied by the means previously described.

5. Cash-Out of Option. The Committee may elect to cash out all or a portion of the Option Shares to be exercised pursuant to any Method of Exercise by paying the Optionee an amount in cash or Common Stock, or both, equal to the Fair Market Value of such shares on the exercise date less the purchase price for such shares.

6. Transfer Restrictions. Unless otherwise required by law, this Option is not transferable by the Optionee in any manner other than by will or the laws of descent and distribution and is exercisable during the Optionee's lifetime only by the Optionee. The terms of the Plan and this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7. Adjustments. In the event of any merger, share exchange, reorganization, consolidation, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants or other similar transaction or event affecting the Common Stock after the date of this Agreement, the Board of Directors of the Company or the Committee may make adjustments to the terms and provisions of this Agreement (including, without limiting the generality of the foregoing, terms and provisions relating to the Grant Price and the number and kind of shares subject to this Option) including, but not limited to, the substitution of equity interests in other entities involved in such transactions, to provide for cash payments in lieu of the Option, and to determine whether continued employment with any entity resulting from such transaction or event will or will not be treated as a continued employment with the resulting company or the Kraft Group, in each case, subject to any Board of Director or Committee action specifically addressing any such adjustments, cash payments or continued employment treatment.

8. Successors. Whenever the word "Optionee" is used herein under circumstances such that the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom this Option may be transferred pursuant to this Agreement, it shall be deemed to include such person or persons. This Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall acquire any rights hereunder in accordance with this Agreement, the Award Statement or the Plan.

9. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Virginia, U.S.A., without regard to choice of laws principles thereof.

10. Award Confers No Rights to Continued Employment - Nature of the Grant. Nothing contained in the Plan or this Agreement shall give any employee the right to be retained in the employment of any member of the Kraft Group or affect the right of any such employer to terminate any employee. The adoption and maintenance of the Plan shall not constitute an inducement to, or condition of, the employment of any employee. Further, the Optionee acknowledges and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted repeatedly in the past;

(c) all decisions with respect to future option grants, if any, will be at the sole discretion of the Board of Directors of the Company or the Committee;

(d) the Optionee is voluntarily participating in the Plan;

(e) the Option and the shares of Common Stock subject to the Option are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and which is outside the scope of the Optionee's employment contract, if any;

(f) the Option is not intended to replace any pension rights or compensation;

(g) the Option and the shares of Common Stock subject to the Option are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or the Employer;

(h) the Option grant and the Optionee's participation in the Plan will not be interpreted to form an employment contract or relationship with the Company or with any subsidiary or affiliate of the Company;

(i) the future value of the underlying shares of Common Stock is unknown and cannot be predicted with certainty;

(j) if the underlying shares of Common Stock do not increase in value, the Option will have no value;

(k) if the Optionee exercises the Option and obtains shares of Common Stock, the value of those shares of Common Stock acquired upon exercise may increase or decrease in value, even below the Grant Price;

(l) in consideration of the grant of the Option, no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from the termination of Optionee's employment by the Company or the Employer and the Optionee irrevocably releases the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, the Optionee shall be deemed irrevocably to have waived the Optionee's entitlement to pursue such claim;

(m) in the event of termination of the Optionee's employment, the Optionee's right to exercise the Option after termination of employment, if any, will be measured by the date of termination of the Optionee's active employment and will not be extended by any notice period mandated under local law;

(n) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Optionee's participation in the Plan, or the Optionee's acquisition or sale of the underlying shares of Common Stock;

(o) the Optionee is hereby advised to consult with the Optionee's own personal tax, legal and financial advisors regarding the Optionee's participation in the Plan before taking any action related to the Plan;

(p) The Option is designated as not constituting an Incentive Stock Option. This Agreement shall be interpreted and treated consistently with such designation; and

(q) the Option and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

11. Interpretation. The terms and provisions of the Plan (a copy of which will be furnished to the Optionee upon written request to the Office of the Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, Illinois 60093) are incorporated herein by reference. To the extent any provision in this Agreement is inconsistent or in conflict with any term or provision of the Plan, the Plan shall govern. The Committee shall have the right to resolve all questions which may arise in connection with the Award or this Agreement, including whether an Optionee is no longer actively employed and any interpretation, determination or other action made or taken by the Committee regarding the Plan or this Agreement shall be final, binding and conclusive.

12. Miscellaneous Definitions. For the purposes of this Agreement, the term "Disability" means permanent and total disability as determined under the procedures established by the Company for purposes of the Plan and the term "Normal Retirement" means retirement from active employment under a pension plan of the Kraft Group, or under an employment contract with any member of the Kraft Group, on or after the date specified as normal retirement age in the pension plan or employment contract, if any, under which the Optionee is at that time accruing pension benefits for his or her current service (or, in the absence of a specified normal retirement age, the age at which pension benefits under such plan or contract become payable without reduction for early commencement and without any requirement of a particular period of prior service). For the purposes of this Agreement, "Early Retirement" means retirement from active employment other than Normal Retirement, as determined by the Committee, in its sole discretion. As used herein, "Kraft Group" means Kraft Foods Inc. and each of its subsidiaries and affiliates. For purposes of this Agreement, (x) a "subsidiary" includes only any company in which the applicable entity, directly or indirectly, has a beneficial ownership interest of greater than 50 percent and (y) an "affiliate" includes only any company that (A) has a beneficial ownership interest, directly or indirectly, in the applicable entity of greater than 50 percent or (B) is under common control with the applicable entity through a parent company that, directly or indirectly, has a beneficial ownership interest of greater than 50 percent in both the applicable entity and the affiliate.

13. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in, the Plan by electronic means or to request the Optionee's consent to participate in the Plan by electronic means. The Optionee hereby consents to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

14. Agreement Severable. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

15. Headings. Headings of paragraphs and sections used in this Agreement are for convenience only and are not part of this Agreement, and must not be used in construing it.

16. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Optionee's participation in the Plan, on the Option, and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Optionee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

IN WITNESS WHEREOF, this Non-Qualified Stock Option Award Agreement has been granted as of [Date], 2009.

Kraft Foods Inc.

By: ______________________________

Carol J. Ward
Vice President and Corporate Secretary

KRAFT FOODS INC.

2006 STOCK COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS
(Amended Effective as of December 31, 2008)

Section 1. Purpose; Definitions.

The purposes of the Plan are (i) to assist the Company in promoting a greater identity of interest between the Company’s Non-Employee Directors and the Company’s stockholders; and (ii) to assist the Company in attracting and retaining Non-Employee Directors by affording them an opportunity to share in the future successes of the Company.

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

(a) “Award” means the grant under the Plan (or, to the extent relevant, under any Prior Director Plan) of Common Stock, Restricted Stock, Deferred Stock, Stock Options, or Other Stock-Based Awards.

(b) “Board” means the Board of Directors of the Company.

(c) “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.

(d) “Common Stock” or “Stock” means Class A Common Stock of the Company.

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

(f) “Deferred Stock” means an unfunded obligation of the Company, represented by an entry on the books and records of the Company, to issue one share of Common Stock on the date of distribution.

(g) “Deferred Stock Account” means the unfunded deferred compensation account established by the Company with respect to each participant who elects to participate in the Deferred Stock Program in accordance with Section 7 of the Plan.

(h) “Deferred Stock Program” means the provisions of Section 7 of the Plan that permit participants to defer all or part of any Award of Stock pursuant to Section 5(a) of the Plan.

(i) “Fair Market Value” means, as of any given date, the average 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. In the case of Stock Options or similar Other Stock-Based Awards, for purposes of Section 5(a), Fair Market Value means, as of any given date, the Black-Scholes or similar value determined based on the assumptions used for purposes of the Company’s most recent financial reporting.

(j) “Non-Employee Director” means each member of the Board who is not a full-time employee of the Company or of any corporation or other entity in which the Company owns, directly or indirectly, stock or similar interests possessing at least 50% of the total combined voting power of all classes of stock or similar interests entitled to vote in the election of directors in such corporation or other entity.

(k) “Other Stock-Based Award” means an Award, other than Restricted Stock, a Stock Option or Deferred Stock, that is denominated in, valued in whole or in part by reference to, or otherwise based on or related to, Common Stock.

(l) “Restricted Stock” means an Award of Common Stock that is subject to forfeiture in the event that the Non-Employee Director ceases to serve as a Director of the Company prior to the end of the stated restriction period unless he ceases to serve in such capacity as a result of his death or disability.

(m) “Plan” means this 2006 Stock Compensation Plan for Non-Employee Directors, as amended from time to time.

(n) “Plan Year” means the period commencing at the opening of business on the day on which the Company’s annual meeting of stockholders is held and ending on the day immediately preceding the day on which the Company’s next annual meeting of stockholders is held.

(o) “Prior Director Plan” shall mean the Company’s 2001 Stock Compensation Plan for Non-Employee Directors, and any subplans thereof.

(p) “Stock Option” means a right granted to a Non-Employee Director to purchase a share of Stock at a price equal to the Fair Market Value on the date of grant. Any Stock Options granted pursuant to the Plan shall be nonqualified stock options.

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 and appoint such delegates 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 Non-Employee Directors reside or are citizens of and to meet the objectives of the Plan.

Any determination made by the Committee in accordance with the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee, and all decisions made by the Committee pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and Plan participants.

Section 3. Eligibility.

Only Non-Employee Directors shall be granted Awards under the Plan.

Section 4. Common Stock Subject to the Plan.

The total number of shares of Common Stock reserved and available for distribution pursuant to the Plan shall be 500,000. If any Stock Option or Other Stock-Based Award is forfeited or expires without the delivery of Common Stock to a participant, the shares subject to such Award shall again be available for distribution in connection with Awards 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 price of an Award shall not be made available for future distribution in connection with Awards under the Plan.

In the event of any merger, share exchange, reorganization, consolidation, recapitalization, reclassification, distribution, stock dividend, stock split, reverse stock split, split-up, spin-off, issuance of rights or warrants or other similar transaction or event affecting the Common Stock after adoption of the Plan by the Board, the Committee is authorized to make such adjustments or substitutions with respect to the Plan and any Prior Director 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 amounts set forth in Section 5(a), and (C) to the number and kind of securities subject to outstanding Awards and, if applicable, to the grant or exercise price of outstanding Awards. In connection with any such event, the Committee is also authorized to provide for the payment of any outstanding Awards in cash, including, but not limited to, payment of cash in lieu of any fractional Awards, provided that any such payment shall comply with the requirements of Internal Revenue Code section 409A.

Section 5. Awards.

(a) Annual Awards.

On the first day of the Plan Year beginning in 2008, each Non-Employee Director serving as such immediately after the annual meeting held on such day shall be awarded a grant of that number of shares of Restricted Stock or Deferred Stock having an aggregate Fair Market Value on the date of grant equal to $125,000 (with any fractional share being rounded up to the next whole share). On the first day of each succeeding Plan Year, each Non-Employee Director serving as such immediately after the annual meeting held on such day shall receive an Award having a Fair Market Value equal to $125,000 (with any fractional share being rounded up to the next whole share) or such greater amount as the Committee determines in its discretion. Such Award shall be made in the form of Common Stock, Restricted Stock, Deferred Stock, Stock Options, Other Stock-Based Awards, or a combination of the foregoing as the Committee determines in its discretion.

(b) Terms of Awards.

(i) Awards of Common Stock, Restricted Stock or Deferred Stock pursuant to Section 5(a) are eligible for participation in the Deferred Stock Program described in Section 7.

(ii) The term of each Stock Option or similar Other Stock-Based Award shall be ten years. Each Stock Option or similar Other Stock-Based Award shall vest in not less than six months (or such longer period set forth in the Award agreement) and shall be forfeited if the participant does not continue to be a Non-Employee Director for the duration of the vesting period unless he ceases to serve in such capacity as a result of his death or disability. Subject to the applicable Award agreement, Stock Options or similar Other Stock-Based Awards 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, to the extent the Committee determines such a procedure to be acceptable, a copy of instructions to a broker or bank acceptable to the Company to deliver promptly to the Company an amount of sale or loan proceeds sufficient to pay the purchase price). As determined by the Committee, payment in full or in part may also be made in the form of Common Stock already owned by the Non-Employee Director valued at Fair Market Value; provided, however, that such Common Stock shall not have been acquired by the optionee within the six months following the exercise of a Stock Option or similar Other Stock-Based Award, within six months after the lapse of any restrictions on an Other Stock-Based Award or Restricted Stock, or within six months after the receipt of Common Stock from the Company, whether in settlement of any Award or otherwise.

Section 6. Award Agreements.

Each Award of Restricted Stock, Deferred Stock, a Stock Option or Other Stock-Based Award under the Plan shall be evidenced by a written agreement (which need not be signed by the Award recipient unless otherwise specified by the Committee) that sets forth the terms, conditions and limitations for each such Award.

Section 7. Payments and Payment Deferrals.

(a) The Deferred Stock Program shall be administered in accordance with the terms of this Section 7, provided that the Committee may modify the terms of the Deferred Stock Program or may require deferral

of the payment of Awards under such rules and procedures as it may establish. Any deferral election shall be made at a time and for such period as shall satisfy the requirements of Internal Revenue Code section 409A(a)(4).

(b) Each participant may elect to participate in a Deferred Stock Program with respect to Awards of Common Stock, Restricted Stock or Deferred Stock granted under Section 5(a). Any election to have the Company establish a Deferred Stock Account shall be made in terms of integral multiples of 25% of the number of shares of Common Stock, Restricted Stock or Deferred Stock that the participant otherwise would have been granted on each date of grant, shall be made no later than the last day of the calendar year immediately preceding the calendar year in which the services entitling the participant to the Award are performed (or in the case of a participant who is first becoming eligible for this Plan and any other plan required to be aggregated with this Plan under Internal Revenue Code section 409A and the regulations and other guidance thereunder, no later than 30 days after the participant first becomes eligible and before the date on which the services entitling the participant to the Award are performed), and shall specify the time and form of distribution of the participant's Deferred Stock Account in a manner complying with Internal Revenue Code sections 409A(a)(2) and (3). Any such election (including an existing election to participate in the Deferred Stock Program under the Prior Director Plan) shall remain in effect for purposes of the Plan until the participant executes (i) a new election applicable to any grants denominated in Common Stock to be made in years after the year in which the new election is made or (ii) an election not to participate in the Deferred Stock Program for any grants of Common Stock, Restricted Stock or Deferred Stock in future years. New elections made pursuant to clause (i) of the preceding sentence may be made only to the extent permitted under rules and procedures established by the Committee taking into account administrative feasibility and other constraints.

(c) The Deferred Stock Account of a participant who elects to participate in the Deferred Stock Program shall be credited with shares of Deferred Stock equal to the number of shares of Common Stock or Restricted Stock that the participant elected to receive as Deferred Stock, or in the case of Deferred Stock, equal to the number of shares subject to the Deferred Stock. The Deferred Stock Account shall thereafter be credited with amounts equal to the cash dividends that would have been paid had the participant held a number of shares of Common Stock equal to the number of shares of Deferred Stock in the participant's Deferred Stock Account, and any such amounts shall be treated as invested in additional shares of Deferred Stock. Effective at the conclusion of the 2006 Annual Meeting of Shareholders, any amounts held in a participant's Deferred Stock Account pursuant to deferrals under the Prior Director Plan shall be treated as invested in the number of shares of Deferred Stock determined by dividing the value of the participant's Deferred Stock Account on such date by the Fair Market Value of one share of Common Stock on such date. Deferred Stock relating to a Restricted Stock Award shall be subject to the same vesting provisions applicable to the Restricted Stock.

(d) Any election by a participant for his or her Deferred Stock Account to be paid upon his or her separation from service as a member of the Board shall be applied in accordance with Internal Revenue Code section 409A. No separation from service shall be deemed to occur until the participant ceases to serve on any and all of the Board and the board of directors of any other company with respect to which his service as a director began while such other company was a subsidiary of the Company.

(e) Notwithstanding the foregoing, if a participant has elected that distribution be made pursuant to this Section 7 upon the participant's separation from service, and the participant is a "specified employee" within the meaning of Internal Revenue Code section 409A and the regulations and other guidance thereunder, distribution in the form of a single sum will be made on the last day of the sixth month following the date of the participant's separation from service.

(f) The Deferred Stock Program shall be administered under such rules and procedures as the Committee may from time to time establish, including rules with respect to elections to defer, beneficiary designations and distributions under the Deferred Stock Program. Notwithstanding anything in this Plan to the contrary, all elections to defer, distributions, and other aspects of the Deferred Stock Program shall be made in accordance with and shall comply with Internal Revenue Code section 409A and any regulations and other guidance thereunder. All election forms are incorporated in and constitute part of the Plan.

Section 8. Plan Amendment and Termination.

The Board may amend or terminate the Plan at any time without stockholder approval, including, but not limited to, any amendments necessary to comply with Internal Revenue Code section 409A and any regulations and other guidance thereunder; provided, however, that no amendment shall be made without stockholder 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 or a similar Other Stock-Based Award to less than the Fair Market Value on the date of grant (except as contemplated by Section 4); 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, without stockholder approval, cancel any Stock Option or similar Other Stock-Based Award and substitute therefor a new Stock Option or Other Stock-Based Award with a lower exercise 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 Award recipients, 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 9. Transferability.

Unless otherwise required by law, Awards shall not be transferable or assignable other than by will or the laws of descent and distribution.

Section 10. 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 11. 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 Securities and Exchange Commission (or any successor agency), 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 from adopting other or additional compensation arrangements for Non-Employee Directors.

(c) Nothing in the Plan or in any Award agreement shall confer upon any grantee the right to continued service as a member of the Board.

(d) No later than the date as of which an amount first becomes includable 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 that 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 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, 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 terms of this Plan shall be binding upon and shall inure to the benefit of any successor to Kraft Foods Inc. and any permitted successors or assigns of a grantee.

(f) Except to the extent pre-empted by Federal law, 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 Virginia, to resolve any and all issues that may arise out of or relate to the Plan or any related Award.

(g) The Plan and all Awards made hereunder shall be interpreted, construed and operated to reflect the intent of the Company that all aspects of the Plan and the Awards shall be interpreted either to be exempt from the provisions of Internal Revenue Code Section 409A or, to the extent subject to Internal Revenue Code Section 409A, comply with Internal Revenue Code Section 409A and any regulations and other guidance thereunder. This Plan may be amended at any time, without the consent of any party, to avoid the application of Internal Revenue Code Section 409A in a particular circumstance or that is necessary or desirable to satisfy any of the requirements under Internal Revenue Code Section 409A, but the Company shall not be under any obligation to make any such amendment. Nothing in the Plan shall provide a basis for any person to take action against the Company or any affiliate based on matters covered by Internal Revenue Code Section 409A, including the tax treatment of any amount paid or award made under the Plan, and neither the Company nor any of its affiliates shall under any circumstances have any liability to any participant or his estate for any taxes, penalties or interest due on amounts paid or payable under the Plan, including taxes, penalties or interest imposed under Internal Revenue Code Section 409A.

(h) If any provision of the Plan is held invalid or unenforceable, the invalidity or unenforceability shall not affect the remaining parts of the Plan, and the Plan shall be enforced and construed as if such provision had not been included.

(i) The Plan was approved by stockholders and became effective at the conclusion of the 2006 Annual Meeting of Shareholders. Except as otherwise provided by the Board, no Awards shall be made after the Awards made immediately following the 2011 Annual Meeting of Shareholders, provided that any Awards granted prior to that date may extend beyond it.

Exhibit 10.15

Kraft Foods Inc.

2001 Compensation Plan for Non-Employee Directors
(as amended and restated effective December 31, 2008)

SECTION 1. Purpose; Definitions

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

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

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

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

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

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

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

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

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

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

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

j. "Deferred Fee Account" means an unfunded deferred compensation account established by the Company on behalf of each Non-Employee Director who makes a

Deferral Election. The Company may establish more than one Deferred Fee Account on behalf of any Non-Employee Director who submits a Modified Election Form in accordance with Section 2.3.2 to modify his or her election as to the Distribution Date with respect to Compensation to be paid for services performed thereafter. Each Deferred Fee Account shall consist of one or more Subaccounts established in accordance with Section 2.2.2.

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

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

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

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

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

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

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

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

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

t. "Kraft Stock Fund Subaccount" means the Subaccount with its value based on the Kraft Foods Stock Fund of the Profit-Sharing Plan.

u. "Meeting Fees" means the portion of a Participant's Compensation that is based upon his or her attendance at Board meetings and meetings of committees of the Board.

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

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

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

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

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

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

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

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

SECTION 2. Deferred Fee Program

2.1 Participation

2.1.1 Deferral Elections

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

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

The Participant shall indicate on the Initial Election Form:

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

b. the Distribution Date;

c. whether distributions are to be in lump sum, in installments or a combination thereof;

d. the Participant's Beneficiary or Beneficiaries; and

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

A Deferral Election submitted on an Initial Election Form shall become effective with respect to a Participant's Retainer Fee and Meeting Fees for services performed on and after the first day of the calendar year following the Election Date of such Initial Election Form. In the case of a newly eligible Participant, however, a Deferral Election may be made no later than 30 days after first becoming eligible for this Plan and any other plan required to be aggregated with this Plan under Code section 409A and the regulations and other guidance thereunder and shall not be effective with respect to Compensation to which the Participant becomes entitled as a result of services performed on or before the Election Date.

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

2.1.2 Change of Deferral Election.

A Participant may change his or her Deferral Election with respect to Compensation for services performed and payable in a subsequent calendar year by submitting a Modified Election Form to the Secretary of the Company.

A Deferral Election to increase or decease the amount of future Compensation to be deferred shall become effective on and after the first day of the calendar year following the Election Date.

2.1.3 Cessation of Deferrals

A Participant may cease to defer future Retainer Fees, Meeting Fees or both in the Deferred Fee Program by submitting a Modified Election Form to the Secretary of the Company. An election by a Participant to cease deferrals of Retainer Fees, Meeting Fees or both in the Deferred Fee Program shall become effective with respect to Compensation for services performed on or after the first day of the calendar year following the Election Date.

2.1.4 Beneficiary Election Modification

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

2.2 Investments

2.2.1 Deferred Fee Accounts

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

2.2.2 Subaccounts

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

To the extent additional investment funds are provided under the Profit-Sharing Plan, the senior Human Resources officer of the Company is authorized to establish corresponding Subaccounts under the Plan. The senior Human Resources officer is authorized to limit or prohibit new investments or transfers into any Subaccount.

Subject to the provisions of Sections 2.2.3 and 2.2.4, on each Allocation Date, each Participant's Subaccounts shall be credited with an amount equal to the Deferred Amount designated by the Participant for allocation to such Subaccounts. Each Subaccount shall be credited with earnings and charged with losses as if the amounts allocated thereto had been invested in the corresponding Fund, provided that the Kraft Stock Fund Subaccount shall be credited with additional shares of Common Stock based on the amount of cash dividends that are paid from time to time on the number of shares of Common Stock with respect to which the Kraft Stock Fund Subaccount is determined.

The value of any Subaccount at any relevant time shall be determined as if all amounts credited thereto had been invested in the corresponding Fund, provided, however, that if as a result of adjustments or substitutions in connection with an event described in Section 4 of the Company's Stock Compensation Plan for Non-Employee Directors or the corresponding provision of any successor thereto, a participant has received or receives with respect to the Kraft Stock Fund Subaccount rights or amounts measured by reference to stock other than Common Stock, then any crediting of amounts to reflect dividends with respect to such other stock shall be allocated among and treated as invested proportionately in the Subaccounts most recently in effect for the investment of Compensation deferred by the Participant.

2.2.3. Investment Directions

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

2.2.4 New Investment Directions

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

2.2.5 Investment Transfers

A Participant (or Beneficiary after the death of the Participant) may transfer to one or more different Subaccounts all or a part (in integral multiples of one percent (1%)) of the amounts credited to a Subaccount by submitting a Transfer Form to the Secretary of the Company; provided however that no Transfer Form with respect to the Kraft Stock Fund Subaccount may be submitted by a Participant who is subject to Section 16 of the Exchange Act if a Transfer Form requesting an opposite way transfer has been submitted by such Participant within the preceding six months.

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

2.3 Distributions

2.3.1 Distribution Elections

Each Participant shall designate on his or her Initial Election Form or, if applicable, Modified Election Form, one of the following dates as a Distribution Date with respect to amounts credited to his or her Deferred Fee Account thereafter:

a. the fifteenth day of the calendar month following the Participant's separation from service, including by reason of Disability or death;

b. the fifteenth day of the earlier of (i) a calendar month specified by the Participant which is at least six months after the Election Date or (ii) the calendar month following the Participant's separation from service, including by reason of Disability or death.

A Distribution Date election shall be effective only with respect to Compensation paid for services performed on and after the Election Date and subsequent earnings credited with respect to such amounts. Any election by a Participant for his or her Account to be paid upon his or her separation from service shall be applied in accordance with Internal Revenue Code section 409A. No separation from service shall be deemed to occur until the Director ceases to serve on any and all of the Board of Directors of the Company and the board of directors of any other company with respect to which his service as a director began while such other company was a subsidiary of the Company.

A Participant may request on his or her Election Form that distributions from his or her Account be made in (i) a lump sum, (ii) no more than one-hundred eighty (180) monthly, sixty (60) quarterly or fifteen (15) annual installments or (iii) a combination of (i) and (ii). Each installment shall be determined by dividing the Account balance by the number of remaining installments. If a Participant receives a distribution from a Subaccount on an installment basis, amounts remaining in such Subaccount shall continue to accrue earnings and incur losses in accordance with the terms of Section 2.2.2. Except as stated in the next paragraph, all distributions shall be made to the Participant.

Upon the Participant's death, the balance remaining in the Participant's Account shall be payable to his or her Beneficiaries as set forth on the Participant's then-current Election Form or Forms. Upon the death of a Beneficiary who is receiving distributions in installments, the balance remaining in the Account of the Beneficiary shall be paid to his or her estate in a lump sum, without interest, except to the extent that the Secretary of the Company permits a Participant to elect otherwise in accordance with the procedures of this Section 2.3.1, taking into account administrative feasibility and other constraints.

All distributions shall be paid in cash and, except as provided in Section 2.3.3, shall be deemed to have been made from each Subaccount pro rata.

2.3.2 Modified Distribution Elections

A Participant may modify his or her election as to the Distribution Date but not the distribution form with respect to Compensation attributable to future service, with such modification to be effective beginning with the next calendar year and continuing thereafter by submitting a Modified Election Form to the Secretary of the Company.

2.3.3 Extraordinary Distributions

Notwithstanding the foregoing, a Participant (or Beneficiary after the participant's death) may request an extraordinary distribution of all or part of the amount credited to his or her Deferred Fee Account because of hardship. A distribution shall be deemed to be "because of hardship" if such distribution is necessary to alleviate or satisfy an immediate and heavy financial need of the Participant and otherwise satisfies the requirements for the occurrence of an “unforeseeable emergency” within the meaning of Code section 409A(a)(2).

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

The Extraordinary Distribution Request Form shall indicate:

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

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

c. the “hardship” requiring the distribution.

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

An extraordinary distribution shall be made with respect to amounts credited to each Subaccount on the first day of the calendar month next following approval of the extraordinary distribution request by the Board; provided, however, that no extraordinary distribution shall be made from the Kraft Stock Fund Subaccount if a Transfer Form pursuant to Section 2.2.5 requesting an opposite way transfer with respect to the Kraft Stock Fund Subaccount had been submitted by a Participant who is subject to Section 16 of the Exchange Act within the preceding six months. Upon approval of an extraordinary distribution request, any Deferral Election shall be cancelled prospectively. A. Participant may make a new Deferral Election for a future year in accordance with Section 2.1.2.

2.3.4 Specified Employee

Notwithstanding anything in the Plan to the contrary or any election made by a Participant, if a Participant has elected that distribution be made upon the Participant’s separation from service, and the Participant is a “specified employee” within the meaning of the Code section 409A and the regulations thereunder, distribution in the form of a single sum will be made on, and distribution in the form of installments will commence on, the fifteenth day of the seventh month following the date of the Participant’s separation from service.

SECTION 3. General Provisions

3.1 Unfunded Plan

It is intended that the Plan constitute an “unfunded” plan for deferred compensation. The Company may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan; provided, however, that, unless the Company otherwise determines, the existence of such trusts or other arrangements is consistent with the “unfunded” status of the Plan. Any liability of the Company to any person with respect to any grant under the Plan shall be based solely upon any contractual obligations that may be created pursuant to the Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

3.2 Rules of Construction

The Plan shall be construed and interpreted in accordance with Virginia law. Headings are given to the sections of the Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law. Notwithstanding anything in this Plan to the contrary, the Plan shall be construed to reflect the intent of the Company that all elections to defer, distributions, and other aspects of the Plan shall comply with Code section 409A and any regulations and other guidance thereunder to the extent applicable. The Plan is also intended to be construed so that participation in the Plan will be exempt from Section 16(b) of the Exchange Act pursuant to regulations and interpretations issued from time to time by the Securities and Exchange Commission.

3.3 Withholding

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

3.4 Amendment

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

3.5 Duration of Plan

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

3.6 Assignability

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

3.7 Adoption of Procedures

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

Exhibit 10.16

KRAFT FOODS INC.

CHANGE IN CONTROL PLAN FOR KEY EXECUTIVES

ADOPTED: APRIL 24, 2007
AMENDED: DECEMBER 31, 2008

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.

For the avoidance of doubt, the Date of Termination shall in all events be the date on which the Participant actually terminates employment.

Disability As defined in Section 3.2(b) (ii).

Disability Effective Date	As defined in Section 3.2(b) (ii).
Effective Date	April 24, 2007. The plan is being amended effective December 31, 2008.
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, with 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 terminates employment with the Employer under circumstances not entitling him or her to Separation Benefits or (ii) the Participant otherwise ceases to be a Key Executive, provided that no Key Executive may be so removed from Plan participation in connection with or in anticipation of a Change in Control that actually occurs. However, a Participant who is entitled, as a result of ceasing to be a Key Executive of the Employer, to receive benefits under the Plan shall remain a Participant in the Plan until the amounts and benefits payable under the Plan have been paid or provided to the Participant in full.

3. Separation Benefits

3.1. Right to Separation Benefits. A Participant shall be entitled to receive from the 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 and such Change in Control occurs within 90 days of the termination. Termination of employment shall have the same meaning as "separation from service" within the meaning of Treasury Regulation § 1.409A-1(h).

3.2. Termination of Employment.

(a) ***Terminations which give rise to Separation Benefits under this Plan.*** The circumstances specified in this Section 3.2(a) are any termination of employment with the Employer by action of the Company or any of its Affiliates or by a Participant for Good Reason, other than as set forth in Section 3.2(b) below. For purposes of this Plan, "Good Reason" shall mean:

(i) the assignment to the Participant of any duties substantially inconsistent with the Participant's position, authority, duties or responsibilities in effect immediately prior to the Change in Control, or any other action by the Company or the Employer that results in a marked diminution in the Participant's position, authority, duties or responsibilities, excluding for this purpose:

a. changes in the Participant's position, authority, duties or responsibilities which are consistent with the Participant's education, experience, etc.;

b. an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company and/or the Employer promptly after receipt of notice thereof given by the Participant;

(ii) any material reduction in the Participant's base salary, annual incentive or long-term incentive opportunity as in effect immediately prior to the Change in Control;

(iii) the Employer requiring the Participant to be based at any office or location other than any other location which does not extend the Participant's home to work location commute as of the time of the Change in Control by more than 50 miles;

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

(v) any failure by the Company to require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, as required by Article 5.

The Participant must notify the Company of any event purporting to constitute Good Reason within 45 days following the Participant's knowledge of its existence, and the Company shall have 20 days in which to correct or remove such Good Reason, or such event shall not constitute Good Reason.

(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 upon Disability shall have occurred where a Participant is absent from the Participant's duties with the Employer on a full-time basis for 180 consecutive days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Participant or the Participant's legal representative. In such event, the Participant's employment with the Employer shall terminate effective on the 30th day after receipt of such notice by the Participant (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Participant shall not have returned to full-time performance of the Participant's duties.

(c) ***Notice of termination.*** Any termination of employment initiated by the Employer for Cause, or by the Participant for Good Reason, shall be communicated by a Notice of Termination to the other party. For purposes of this Plan, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Plan relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the provision so indicated, and (iii) specifies the date upon which the Participant's termination of employment is expected to occur (which date shall be not more than 30 days after the giving of such notice), provided, however, that such specified date shall not be considered the Date of Termination for any purpose of this Plan if such date differs from the Participant's actual Date of Termination. The failure by the Participant or the Employer to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Participant or the Employer, respectively, hereunder or preclude the Participant or the Employer, respectively, from asserting such fact or circumstance in enforcing the Participant's or the Employer's rights hereunder.

3.3. <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 the total number of days in the performance cycle, and (D) any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in sub clauses (A), (B), (C) and (D), 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 the maximum amount of welfare benefits provided to a Participant under this provision in any calendar year shall not be increased or decreased to reflect the amount of welfare benefits provided to such

Participant under this provision in a prior or subsequent calendar year; provided, further, 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 and provided, further, that the Participant's costs under any such retiree benefits plans, practices, programs or policies shall be based upon actual service with the Company and its Affiliates.

(d) The 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 terminates employment.

(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 immediately prior to the Change in Control; provided, however, that the maximum value of perquisites provided to a Participant under this provision in any calendar year shall not be increased or decreased to reflect the value of perquisites provided to such Participant under this provision in a prior or subsequent calendar year. 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 pay or provide to the Participant, at the time otherwise payable, any other amounts or benefits required to be paid or provided or that the Participant is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its Affiliates.

(g) Notwithstanding the foregoing, if the Participant is a "specified employee" within the meaning of Section 409A of the Code, then (i) any payments described in Sections 3.3(a) and (b) which the Company determines constitute the payment of nonqualified deferred compensation, within the meaning of Section 409A of the

Code, shall be delayed and become payable within five days after the six-month anniversary of the Participant's termination of employment and (ii) any benefits provided under Sections 3.3(c) and (e) which the Company determines constitute the payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, shall be provided at the Participant's sole cost during the six-month period after the date of the Participant's termination of employment, and within five days after the expiration of such period the Company shall reimburse the Participant for the portion of such costs payable by the Company pursuant to Sections 3.3(c) and (e) hereof.

(h) For all purposes under the applicable Company non-qualified defined benefit pension plan, the Company shall credit the Participant with two (or in the case of a Participant who served as Chairman and Chief Executive Officer immediately prior to the Change in Control, three) additional years of service and shall add two (or in the case of a Participant who served as Chairman and Chief Executive Officer immediately prior to the Change in Control, three) years to the Participant's age.

3.4. Certain Additional Payments by the Company.

(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. The reimbursements and payments under this Section 3.4 shall be made no later than December 31 of the year next following the year in which the related Excise Taxes are remitted.

(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 effectively to 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; (B) that 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. <u>Payment Obligations Absolute</u>. Upon a Change in Control and termination of employment under the circumstances described in Section 3.2(a), the obligations of the Company and its Affiliates to pay or provide the Separation Benefits described in Section 3.3 shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company or any of the Affiliates may have against any Participant. In no event shall a Participant be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to a Participant under any of the provisions of this Plan, nor shall the amount of any payment or value of any benefits hereunder be reduced by any compensation or benefits earned by a Participant as a result of employment by another employer, except as specifically provided under Section 3.3.

3.6. Non-Competition and Non-Solicitation. Upon a Change in Control and termination of employment under the circumstances described in Section 3.2(a), the obligations of the Company and its Affiliates to pay or provide the Separation Benefits described in Section 3.3 are contingent on the Participant's adhering to the Non-Competition Agreement and the Non-Solicitation Agreement. Should the Participant violate the Non-Competition Agreement or Non-Solicitation Agreement, the Participant will be obligated to pay back to the Employer all payments received pursuant to this Plan and the Employer will have no further obligation to pay the Participant any payments that may be remaining due under this Plan.

3.7. Non-Disparagement. Upon a Change in Control and termination of employment under the circumstances described in Section 3.2(a), the obligations of the Company and its Affiliates to pay or provide the Separation Benefits described in Section 3.3 are contingent on the Participant's adhering to certain non-disparagement provisions. The Participant agrees that, in discussing their relationship with Employer, such Participant will not disparage, discredit or otherwise treat in a detrimental manner the Employer, its affiliated and parent companies or their officers, directors and employees. The Employer agrees that, in discussing its relationship with the Participant, it will not disparage or discredit such Participant or otherwise treat such Participant in a detrimental way.

3.8 General Release of Claims. Upon a Change in Control and termination of employment under the circumstances described in Section 3.2(a), the obligations of the Company and its Affiliates to pay or provide the Separation Benefits described in Section 3.3 are contingent on the Participant's (for him/herself, his/her heirs, legal representatives and assigns) agreement to execute a general release in the form and substance to be provided by Employer, releasing the Employer, its affiliated companies and their officers, directors, agents and employees from any claims or causes of action of any kind that the Participant might have against any one or more of them as of the date of this Release, regarding his/her employment or the termination of that employment. The Participant understands that this Release applies to all claims (s)he might have under any federal, state or local statute or ordinance, or the common law, for employment discrimination, wrongful discharge, breach of contract, violations of Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Employee Retirement Income Security Act, the Americans With Disabilities Act, or the Family and Medical Leave Act, and all other claims related in any way to Participant's employment or the termination of that employment.

3.9. Non-Exclusivity of Rights. Nothing in this Plan shall prevent or limit the Participant's continuing or future participation in any plan, program, policy or practice provided by the Company or any of the Affiliates and for which the Participant may qualify, nor, subject to Section 6.2, shall anything herein limit or otherwise affect such rights as the Participant may have under any contract or agreement with the Company or any of the Affiliates. Amounts or benefits which the Participant is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of the Affiliates shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Plan.

4. Successor to Company

This Plan shall bind any successor of the Company, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), in the same manner and to the same extent that the Company 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. Section 409A of the Code. The Plan shall be interpreted, construed and operated to reflect the intent of the Company that all aspects of the Plan shall be interpreted either to be exempt from the provisions of Section 409A of the Code or, to the extent subject to Section 409A of the Code, comply with Section 409A of the Code and any regulations and other guidance thereunder. Notwithstanding anything to the contrary in Section 5.2, this Plan may be amended at any time, without the consent of any Participant, to avoid the application of Section 409A of the Code in a particular circumstance or to the extent determined necessary or desirable to satisfy any of the requirements under Section 409A of the Code, but the Employer shall not be under any obligation to make any such amendment. Nothing in the Plan shall provide a basis for any person to take action against the Employer based on matters covered by Section 409A of the Code, including the tax treatment of any award made under the Plan, and the Employer shall not under any circumstances have any liability to any Participant or other person for any taxes, penalties or interest due on amounts paid or payable under the Plan, including taxes, penalties or interest imposed under Section 409A of the Code.

6.7 Claim Procedure. If a Participant makes a written request alleging a right to receive Separation Benefits under the Plan or alleging a right to receive an adjustment in benefits being paid under the Plan, the Company shall treat it as a claim for benefits. All claims for Separation Benefits under the Plan shall be sent to the General Counsel of the Company and must be received within 30 days after the Date of Termination. If the

Company determines that any individual who has claimed a right to receive Separation Benefits under the Plan is not entitled to receive all or a part of the benefits claimed, it will inform the claimant in writing of its determination and the reasons therefore in terms calculated to be understood by the claimant. The notice will be sent within 90 days of the written request, unless the Company determines additional time, not exceeding 90 days, is needed and provides the Participant with notice, during the initial 90-day period, of the circumstances requiring the extension of time and the length of the extension. The notice shall make specific reference to the pertinent Plan provisions on which the denial is based, and describe any additional material or information that is necessary. Such notice shall, in addition, inform the claimant what procedure the claimant should follow to take advantage of the review procedures set forth below in the event the claimant desires to contest the denial of the claim. The claimant may within 90 days thereafter submit in writing to the Plan Administrator a notice that the claimant contests the denial of his or her claim by the Company and desires a further review. The Plan Administrator shall within 60 days thereafter review the claim and authorize the claimant to appear personally and review the pertinent documents and submit issues and comments relating to the claim to the persons responsible for making the determination on behalf of the Plan Administrator. The Plan Administrator will render its final decision with specific reasons therefor in writing and will transmit it to the claimant within 60 days of the written request for review, unless the Plan Administrator determines additional time, not exceeding 60 days, is needed, and so notifies the Participant during the initial 60-day period. If the Plan Administrator fails to respond to a claim filed in accordance with the foregoing within 60 days or any such extended period, the Plan Administrator shall be deemed to have denied the claim. The Committee may revise the foregoing procedures as it determines necessary to comply with changes in the applicable U.S. Department of Labor regulations.

6.8. Unfunded Plan Status. This Plan is intended to be an unfunded plan and to qualify as a severance pay plan within the meaning of Labor Department Regulations Section 2510.3-2(b). All payments pursuant to the Plan shall be made from the general funds of the 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.

6.9. Reliance on Adoption of Plan. Subject to Section 5.2, each person who shall become a Key Executive shall be deemed to have served and continue to serve in such capacity in reliance upon the Change in Control provisions contained in this Plan.

6.10. Plan Supersedes prior U.S. Arrangements with one Exception. For the period of two years following the occurrence of a Change in Control, the provisions of this Program shall supersede, with respect to U.S. Participants, any and all plans, programs, policies and arrangements of the Company providing severance benefits, EXCEPT FOR the 2005 Performance Incentive Plan.

IN WITNESS WHEREOF, the Company has caused this Plan to be executed by its duly authorized officer effective as of the Effective Date set forth above.

KRAFT FOODS INC.

By: /s/ Karen May

Karen May
EVP, Global Human Resources

Exhibit 10.18

KRAFT EXECUTIVE DEFERRED COMPENSATION PLAN

ADOPTION AGREEMENT

As Amended November 3, 2008

KRAFT EXECUTIVE DEFERRED COMPENSATION PLAN
ADOPTION AGREEMENT
As Amended November 3, 2008

ADOPTION OF PLAN — *[Select one]*

☒ **Adoption** - The undersigned **Kraft Foods Global, Inc.** (the "Employer") hereby adopts as a Nonqualified Deferred Compensation Plan for the individuals identified in Item 5 herein the form of Plan known as the Nonqualified Supplemental Deferred Compensation Plan.

NAME OF PLAN

The name of this Plan as adopted by the Employer is the **Kraft Executive Deferred Compensation Plan** (the "Plan").

INDIVIDUALIZED PLAN INFORMATION

With respect to the variable features contained in the Plan, the Employer hereby makes the following selections granted under the provisions of the Plan:

1. **Adopting Entity**. The Employer adopts the Plan as:

List type of business entity (corporation, partnership, controlled group of corporations, etc.) Corporation

List each Employer adopting the Plan and Employer Identification Number (EIN):

Name of Employer: Kraft Foods Global, Inc.	EIN: 36-3083135
Name of Employer:	EIN:
Name of Employer:	EIN:
Name of Employer:	EIN:
Name of Employer:	EIN:

(attach additional lists as necessary)

The adopting Employers and the Employer are referred to herein collectively as the "Employer."

Select state of controlling law (see Section 10.7 of Plan Document):

☐ State of incorporation; _____

☒ State of domicile; Illinois

2. **Effective Date**. The “Effective Date” of the adoption of this Plan, this Plan amendment or this Plan restatement is June 1, 2008.

3. **Plan Year**. The “Plan Year” of the Plan shall be ***[select one]***:

   ☒ the calendar year.

   ☐ the fiscal year or other 12- month period ending on the last day of ***[specify month]***.

   ☐ a short Plan year beginning on , and ending on , ; and thereafter the Plan year shall be as indicated in (a) or (b) above.

4. **Plan Administrator**. The “Administrators” of the Plan are the <u>Vice President Corporate Compensation and the Executive Vice President, Human Resources</u>

   [fill in the name(s) of the individual(s) or job title(s) or entity (such as a committee) that is (are) responsible for administration of the Plan], and such other person(s) or entity as the Employer shall appoint from time to time. Each Administrator is authorized to independently take any action required or permitted to be taken by an Administrator under the Plan.

5. **Eligible Individuals**. The following shall be eligible to participate in the Plan: ***[select all that apply – do not list individual names]:***

   ☒ A select group of management or highly-compensated Employees as designated by the Employer in the Summary Plan Description;

   ☐ Employee Board Members;

   ☐ Non-Employee Board Members;

   ☐ Other Service Providers (i.e., independent contractors, consultants, etc.)

   ☐ Employees or other Service Providers above the following Compensation threshold: ***[enter dollar amount]*** $ ______ ;

   ☐ Employees with the following job titles: ***[enter job title(s); for example, “Vice President and above”] ______***

   ☐ Other: ***[enter description] ______***

6. **Eligibility Timing**. Eligibility timing selected below shall apply uniformly to all Participant Deferrals (including Performance-Based Bonus Deferrals), as well as Employer Matching Contributions and Other Employer Contributions, unless otherwise indicated. If the Employer wishes to provide for separate eligibility rules for different types of Compensation (for example, Salary vs. Bonus), or for types of Contributions (for example, Employer Matching Contributions vs. Participant Deferrals), mark “Other” below and attach exhibits as necessary ***[select one]:***

   ☐ Eligible immediately upon properly completed designation by the Plan administrator or Employer;

☐ Eligible after the following period of employment, Board service, etc. ***[enter number of days, months or years, for example, 90 days]*** ______;

☒ Other ***[enter description]:*** Eligible immediately upon eligibility to participate in the Plan.

7. **Types and Amounts of Participant Deferrals [*select all that apply and enter minimum and maximum percentages in increments of one percent (for example, Salary minimum 0% maximum 100%). Note that no Deferral election can reduce a Participant's Compensation below the amount necessary to satisfy required withholding for FICA/Medicare/income taxes, required Participant Contributions into another Employer-sponsored benefit plan such as medical insurance, 401(k) loan repayments, etc.]:***

☒ Salary ***[select one]***:

☒ percentage **[minimum 0% and maximum 50%, in 10% increments only]**

or

☐ fixed dollar amount ***[enter minimum $______]***.

☒ Non-Performance-Based Bonus ***[select one]***:

☒ percentage **[minimum 0% and maximum 100%, in 25% increments only]**

or

☐ fixed dollar amount ***[enter minimum $______]***.

☒ Annual Performance-Based Bonus: performance period from 1/1 to 12/31.

☒ percentage [minimum 0% and maximum 100%, in 25% increments only]

or

☐ fixed dollar amount ***[enter minimum $______]***.

☒ Performance-Based (Long-Term Incentive Plan) Bonus: performance period from 1/1/07 to 12/31/09, and subsequent performance periods as determined under the Long-Term Incentive Plan.

☒ percentage [minimum 0% and maximum 100%, in 25% increments only]

or

☐ fixed dollar amount ***[enter minimum $______]***.

☒ Commissions ***[select one]***:

☒ percentage [minimum 0% and, maximum 50%, in 10% increments only]

or

☐ fixed dollar amount ***[enter minimum $______]***.

☐ Board of Directors Fees/Retainer (note – should not include expense reimbursements):

☐ percentage ***[enter minimum __% and, maximum __%]***

or

☐ fixed dollar amount ***[enter minimum $______]***.

☐ Other Service Provider Fees or other earned income from the Employer:

☐ percentage ***[enter minimum __% and, maximum __%]***

or

☐ fixed dollar amount ***[enter minimum $______]***.

☐ 401(k) Refund *(amount deferred from Participant's regular Compensation equal in value to any refund paid to Participant in that year resulting from excess deferrals in Employer's 401(k) plan – see Subsection 2.9 of Plan document for definition.)*

☐ Other ***[enter description]: ______***

8. **Definition of Compensation for Purposes of Making Plan Contributions** ***[select one]:***

☐ Same definition of Compensation as in Employer's 401(k) or other applicable qualified retirement plan, earned while the Participant is an Eligible Individual, as determined by the Employer.

☒ Participant's total wages, salary, commissions, overtime, bonus, etc. for a given year which the Employer is required to report on Form W-2 or other appropriate form, (or, in the case of Other Service Providers, the Participant's total remuneration from the Employer for a given year pursuant to the agreement to provide services to the Employer), earned while the Participant is an Eligible Individual as determined by the Employer.

☐ Other ***[enter description]: ______***

9. **Expiration of Participant's Deferral Elections** ***[select all that apply]:***

☒ **Renewed Each Year:** Participant's Deferral Elections must be renewed each year during the open enrollment period ending no later than December 31 prior to the effective Plan year (or, in the case of Performance-Based Bonuses, no less than 6 months prior to the end of the applicable performance period).

☒ For all types of Compensation Deferrals.

☐ For Salary Deferrals only — other types of Deferrals are “evergreen”.

☐ For Performance-Based Bonus only — other types of Deferrals are “evergreen”.

☐ Other: ***[specify]* ______**

☐ **Evergreen:** Participant’s Deferral Elections will be “evergreen” (i.e., will continue indefinitely until the Participant’s Termination Date unless changed by the Participant – so each year the Participant will be deemed to have the same election in place as the prior year unless actively changed by the Participant during the open enrollment period ending no later than December 31 prior to the effective Plan year or, in the case of Performance-Based Bonuses, no less than 6 months prior to the end of the applicable performance period).

☐ For all types of Compensation Deferrals.

☐ For Salary Deferrals only — other types of Deferrals are renewed each year.

☐ For Performance-Based Bonus only — other types of Deferrals are renewed each year.

☐ Other: ***[specify]* ______**

10. **Employer Contributions *[select all that apply]:***.

☒ (a) No Employer Contributions.

☐ (b) Matching Contributions on all Participant Compensation Deferrals ***[also complete Items 11 through 14].***

☐ (c) Matching Contributions on certain types of Compensation Deferrals (for example, Matching Contributions on Participant Performance-Based Bonus Deferrals, etc.) ***[attach explanation describing which types of deferrals will be matched and also complete Items 11 through 14]***

☐ (d) Employer Contributions other than Matching Contributions. Employer Contributions will equal the Employer matching contributions that, but for the Participant’s deferral of Compensation under the Plan, would have been contributed to the Kraft Foods Global, Inc. Thrift Plan or the Kraft Foods Global, Inc. Supplemental Benefits Plan I on behalf of the Participant.

11. **Amount of Matching Contribution on Participant Compensation Deferrals**. If the Employer has specified in Item 10(b) or (c) that it will make Matching Contributions on

behalf of Participants based on their Compensation Deferrals, such Matching Contributions will be in an amount determined as follows for the applicable period selected in Item 13 below: ***[Select (a), (b), (c), (d) or (e) below – if Employer has indicated in 10(c) above that Matching Contributions will be made on certain types of Participant Compensation Deferrals and if Employer wishes for different Matching formulas to be used for different types of Participant Compensation Deferrals, Employer should attach additional copies of this Item 11 completed for each type of Participant Compensation Deferral that is matched.]***

☐ (a) __% of the Compensation Deferrals made by each Participant during the applicable period.

☐ (b) At a percentage determined from time to time in the discretion of the Employer of each Participant's Compensation Deferrals for the applicable period (percentage should be documented in writing when determined, and such writings will form part of the plan).

[***Optional:*** If 11(a) or (b) above is selected, the Employer may also specify here that it will not match Compensation Deferrals in excess of $______ or __% of each Participant's Compensation during the applicable period —***specify <u>either</u> a dollar amount or a whole percentage.*** If no limit is entered here, the assumption is that 100% of the Participant's Compensation Deferrals will be matched at the applicable percentage.]

☐ (c) __% of the portion of each Participant's Compensation Deferral Contributions during the applicable period which does not exceed __% of the Participant's Compensation for such period; plus __% of the portion, if any, of each Participant's Compensation Deferral Contributions during the applicable period which exceeds __% but does not exceed __% of the Participant's Compensation for such period.

[Note: Example for 11(c) above – select this option if Employer wants to match different percentages and different levels of deferral – for example, 100% of the first 3% of compensation deferred, and 50% of the next 2%]

☐ (d) __% of the Compensation of each Participant who made Compensation Deferral Contributions during the applicable period of at least __% of Compensation.

☐ (e) Other: ***[describe]*** ______

12. **Applicable Period for Matching Contributions**. Employer Matching Contributions elected under Item 10(b) or (c) shall be allocated and credited to eligible Participants' Accounts as soon as administratively feasible after the end of each "Applicable Period" after the amounts have been determined by the Employer. For purposes of determining a Participant's share of Matching Contributions under Item 10, the Applicable Period shall be ***[Select <u>one</u>]:***

☐ the Plan Year.

☐ the payroll period.

☐ other (specify calendar month, Plan year quarter, etc.) ______.

13. **Employees Eligible to Receive Employer Matching Contributions**. Matching Contributions made for each Plan Year (if applicable) shall be allocated and credited to the Accounts of the following Participants: ***[Select one if applicable]***

☐ Participants who were employed by the Employer (or, in the case of non-Employee Board Members, served on the Board) during that Plan Year, or, in the case of Other Service Providers, who provided services to the Employer during that Plan Year.

☐ Participants who were employed by the Employer (or, in the case of non-Employee Board Members, served on the Board) on the last day of the Plan Year, or, in the case of Other Service Providers, who provided services to the Employer on the last day of the Plan Year.

☐ Participants who were employed by the Employer (or, in the case of non-Employee Board Members, served on the Board) on the last day of the Plan Year or who retired, died or were Disabled during the Plan Year, or, in the case of Other Service Providers, who provided services to the Employer on the last day of the Plan Year or who died or were Disabled during the Plan Year. ***[If this option is selected, complete Item 30 — definition of "Disability".]***

14. **Vesting Schedule of Employer Matching Contributions**. If Matching Contributions are made to the Plan, select the rate at which such Contributions will vest ***[select one]***:

☐ Immediate 100% vesting for all Participants.

☐ "Cliff" vesting (0% up to cliff; 100% after cliff) ***[select one]***:

☐ 1 year cliff (less than 1 year 0%; 1 or more years 100%)

☐ 2 year cliff (less than 2 years 0%; 2 or more years 100%)

☐ Other cliff (***enter number of years:*** less than ______ years 0%; ______ or more years 100%)

☐ "Graded" vesting ***[enter vesting percentages]***:

1 year __%	6 years __%	11 years __%
2 years __%	7 years __%	12 years __%
3 years __%	8 years __%	13 years __%
4 years __%	9 years __%	14 years __%
5 years __%	10 years __%	15 years __%

☐ Other vesting schedule: ***[describe schedule – subject to approval]*** ______

15. **Vesting Schedule of Employer Contributions (Other Than Matching Contributions)**. If Employer Contributions (other than Matching Contributions) are made to the Plan, select the rate at which such Contributions will vest ***[select one]***:

☐ Immediate 100% vesting for all Participants.

☐ "Cliff" vesting (0% up to cliff; 100% after cliff) ***[select one]***:

☐ 1 year cliff (less than 1 year 0%; 1 or more years 100%)

☐ 2 year cliff (less than 2 years 0%; 2 or more years 100%)

☐ Other cliff (enter number of years: less than _____ years 0%; _____ or more years 100%)

☐ "Graded" vesting ***[enter vesting percentages]***:

1 year __%	6 years __%	11 years __%
2 years __%	7 years __%	12 years __%
3 years __%	8 years __%	13 years __%
4 years __%	9 years __%	14 years __%
5 years __%	10 years __%	15 years __%

☐ Other vesting schedule:

16. **Vesting Years**. A "Vesting Year" described above for purposes of determining vesting under the Plan shall be computed in accordance with: ***[select one – if this is an amendment or restatement of a prior plan, definition from prior plan will override this definition.]***

☒ Years of service (12-consecutive-month periods) with the Employer since date of hire (or date of commencement of Board service).

☐ Years of participation in the Plan (12-consecutive-month period between date Participant enters Plan and anniversary of such date) (if this is an amendment or restatement of a prior Plan, years of participation in prior plan will be included) (additional fees will apply if this item is selected).

☐ Plan Years since each Plan Year's total Contributions were made ("rolling vesting") (additional fees will apply if this item is selected). [***If this option is selected, select either (a) or (b) below:]***

☐ (a) Vesting will be credited/updated on the last day of the Plan year.

☐ (b) Vesting will be credited/updated on the anniversary of the date the Contribution is credited.

17. **Full Vesting Upon Occurrence of Specific Event.** ***[select all that apply]***

☐ 100% vesting upon Normal Retirement ***[describe criteria such as age (can be partial year), years of service with the Employer (must be whole years of service), or years of participation in the Plan (must be whole years of participation)] ______***

☐ 100% vesting upon Early Retirement ***[describe criteria such as age (must be whole years), years of service with the Employer (must be whole years of service), or years of participation in the Plan (must be whole years of participation)] ______***

☐ 100% vesting upon Death.

☐ 100% vesting upon Disability ***[complete Item 30 – definition of "Disability"]***.

☐ 100% vesting upon Change in Control of the Employer ***[complete Items 28 and 29 – definition of "Change in Control"]***

☐ 100% vesting upon occurrence of other event: ***[describe event] ______***

18. **Service Before Plan's Establishment Excluded**. Years of service earned prior to establishment of the Plan shall be disregarded for purposes of determining vesting under the Plan:

☒ Yes (this may be elected only if this is the establishment of a new Plan).

☐ No.

19. **Forfeitures for Misconduct or Violation of Non-Compete**. Participants terminating employment prior to becoming 100% vested will forfeit the forfeitable percentage of their Accounts as indicated in accordance with the vesting schedule selected in Items 14 and/or 15. Participants may also forfeit 100% of their Matching and Employer Contribution Accounts (if applicable) under the following circumstances: ***[select any that apply]***:

☐ Misconduct (termination for Cause). ***[if selected, the definition of Misconduct or Cause should be documented in writing, and such writings will form part of the Plan]***

☐ Engaging in competition with the Employer. ***[if selected, the definition of engaging in competition should be documented in writing, and such writing will form part of the Plan]***

20. **Employer Stock as Deemed Investment Option.** If Employer stock will be a deemed investment option, indicate below how shares are to be tracked: ***[select one]***

☐ Partial and whole shares.

☒ Unitized fund.

21. **In-Service Distributions.** If the Employer elects below, the Plan will allow distributions of Participant Deferral Contributions to be made to Participants while they are still employed ("In-Service Distributions"), if they elect a fixed distribution date during the regular election period. ***[Select <u>one – note that In-Service Distributions of Employer Contributions is not permitted</u>]***

☐ No, In-Service Distributions will not be permitted.

☒ Yes, In-Service Distributions will be permitted. [select one].

☒ For All Participant Deferral Contributions

☐ For Participant Compensation Deferral Contributions (other than Performance-Based Bonus) only.

☐ For Participant Performance-Based Bonus Deferral Contributions.

Please indicate the number of years a Participant must defer payment(s) until In-Service Distribution(s) may begin:

☒ 2 Years after the Calendar Year for which the deferral is effective

☐ __ Years after the Calendar Year for which the deferral is effective

Please indicate if separate In-Service Distribution Dates are allowed for each Type of Participant Deferral selected in Item 7:

☐ No (single distribution date allowed per Plan Year)

☒ Yes (requires additional tracked sources per Plan Year)

[Note – if "Yes" is elected above and the Plan will allow In-Service Distributions, please indicate if Participant will be permitted to make a "pushback" subsequent election to defer the original distribution date at least five years in accordance with Plan provisions (see subsection 9.1 of Plan document – note that election must be made 12 months prior to original distribution date and election will not take effect for 12 months) ☒ ***Yes*** ☐ ***No]***

22. **Unforeseeable Emergency Distribution Dates**. If the Employer elects below, the Plan will allow distributions to be made to Participants while they are still employed if they meet the criteria for an unforeseeable emergency financial hardship ("Unforeseeable Emergency Distributions"). Both Participant Deferral Contributions and Vested Employer Contributions can be distributed in the event of an eligible Unforeseeable Emergency Distribution event. ***[Select <u>one</u>]***

☐ No, Unforeseeable Emergency Distributions will not be permitted.

☒ Yes, Unforeseeable Emergency Distributions will be permitted. ***[select one below].***

- ☐ For active Participants only.
- ☒ For active Participants, terminated Participants and Beneficiaries.

23. **Form of Distributions (at Termination of Employment or Death)**. Distributions will be made to Participants upon Termination of Employment with the Employer or Death of the Participant as follows ***[select one]***

☐ Lump sum only.

☒ Lump sum unless installments elected, but can only receive installments from Accounts other than the Employer Contributions Account if Participant meets the following criteria:

- ☒ Termination or Death at or after age 53 with at least 5 Vesting Years of Service.
- ☐ Early Retirement ***[describe criteria such as age (must be whole years), years of service with the Employer (must be whole years of service), or years of participation in the Plan (must be whole years of participation)] ______***
- ☐ Termination (other than for Misconduct, Cause or Violation of Non-Compete)

☐ Lump sum unless installments elected, and Participant may receive installments regardless of reason for Termination of Employment.

[Note – if Installments are elected above, please indicate if Participant will be permitted to make a subsequent election to change the number of installments in accordance with Plan provisions (see subsection 9.2 of Plan document)   ☒ Yes   ☐ No]

24. Distribution Upon Disability. If the Employer selects below, the Plan will allow distributions to be made to Participants upon Disability but while they are still employed if they meet the criteria for Disability in Item 30 below. The form of distribution will be the same as for Termination of Employment.

☐ No, distribution upon Disability will not be permitted.

☒ Yes, distributions upon Disability will be permitted. ***[complete Item 30 – definition of "Disability"].***

25. Expiration of Participant's Distribution Elections ***[select one]:***

☒ **Renewed Each Year:** Participant's Distribution Election must be selected each year during the open enrollment period for the following year's contributions – if no new election is made, that year's contributions default to payment in the form of a lump sum.

☐ **Evergreen:** Participant's Distribution Election will be "evergreen" (i.e., will continue indefinitely for each year's contributions until the Participant's Termination Date unless changed by the Participant – so each year the Participant will be deemed to have the same distribution election in place as the prior year unless actively changed by the Participant at open enrollment, and the change will only be applicable to future contributions)

26. Distributions Upon Change in Control: If Employer elects below, distributions will be made to Participants upon Change in Control of the Employer (without a termination of employment of the Participant), as follows ***[select one, and complete Items 28 and 29 below (definition of "Change in Control")]***

☒ No, Distributions upon Change in Control will not be permitted.

☐ Yes, Distributions upon Change in Control will be permitted, in a lump sum only.

☐ Yes, Distributions upon Change in Control will be permitted, in a lump sum or in installments as elected by the Participant ***[complete Item 23]***.

27. **Length of Installments (if Installment Distributions permitted in Item 23 and/or Item 26 above)** ***[indicate length below]:***

Annual installments over no fewer than 2 ***[enter minimum number of years – must be at least 2]*** and no more than 10 years at Participant's election ***[enter maximum number of years].***

28. **"Change in Control" – Dates of Distribution**. Distributions upon a Change in Control shall occur upon ***[select all that apply – see Subsection 9.9 of the Plan document for more details]:***

☒ The consummation of a merger or consolidation of Kraft Foods Inc. and another company, and Kraft Foods Inc. 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 Kraft Foods Inc.; 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 Kraft Foods Inc. 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 Kraft Foods Inc. 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 Kraft Foods Inc.

- ☒ The consummation of a plan of complete liquidation of Kraft Foods Inc. or the sale or disposition of all or substantially all of the Kraft Foods Inc. 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 Kraft Foods Inc. 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 Kraft Foods Inc. assets in substantially the same proportions relative to each other as their ownership, immediately prior to such transaction, of the outstanding voting securities of Kraft Foods Inc.
- ☒ The date that a person or group acquires ownership of 20% or more of the outstanding voting securities of Kraft Foods Inc. excluding, however, the following: (a) any acquisitions by Kraft Foods Inc. or any of it affiliates; (b) any acquisition by an employee benefit plan or related trust sponsored or maintained by Kraft Foods Inc. or its affiliates; (c) any acquisition or merger described in this Item 28.
- ☒ During any consecutive 24 month period, persons who constitute the board of directors at Kraft Foods Inc. at the beginning of such period cease to constitute at least 50% of the board of directors of Kraft Foods Inc.; provided that each new member of the board who is approved by a majority of the directors who began such 24 month period shall be deemed to have seen a member of the Board at the beginning of such 24 month period.

29. **Definition of "Disability." A Participant shall be considered "Disabled" if *[select one]:***

☐ by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of at least 12 months, the Participant is receiving income replacement benefits for at least 3 months under accident and health plans of the Employer;

☐ the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months;

☐ the Participant is deemed to be totally disabled by the Social Security Administration;

☒ the Participant is determined to be disabled in accordance with a disability insurance program, provided that the definition of disability under such disability insurance program complies with the requirements of one of the three preceding definitions above.

30. **Distributions to "Key Employees" — Investment**. In order to comply with Internal Revenue Code Section 409A, distributions to "key employees" (see subsection 9.3 of the Plan Document for definition) of publicly traded companies made due to employment termination cannot be made within 6 months of the employment termination date. If distribution to a key employee must be delayed to comply with this 6-month rule, indicate below how Account balances of such a Participant will be invested during the period of delay ***[select one]***:

☐ Valued as of most recent Valuation Date and held at the Employer without allocation of additional gains or losses after such Valuation Date until payment can be made.

☒ Remain invested as if termination date had not occurred, then valued as of most recent Valuation Date and distributed.

31. **QDRO Distributions**. The Employer may elect whether distributions from a Participant's Account shall be permitted upon receipt by the Plan Administrator of a Qualified Domestic Relations Order relating to a marital dissolution or separation that provides for payment of all or a portion of a Participant's Accounts to an alternate payee (spouse, former spouse, children, etc.). ***[Indicate below whether QDRO distributions will be permitted]:***

☐ No, QDRO Distributions will not be permitted.

☒ Yes, QDRO Distributions will be permitted.

32. **Additional Survivor Death Benefit from Life Insurance**. In the event that life insurance is utilized as a funding vehicle for the Plan, the Employer may wish to provide additional Survivor Benefit from the following options : ***[select one]***

☒ No additional Survivor Benefit offered, but rather Participant's vested Account balance.

☐ Face value of life insurance policy of Participant, if any.

☐ Greater of (a) face value of life insurance policy of Participant, if any, or (b) Participant's vested Account balance.

☐ Other: ***[enter amount or formula]*** ______

33. **Payment of Plan Expenses**. Plan expenses may be paid as follows: ***[select one]***

☒ Directly by the Employer.

☐ Deducted from the Participant accounts and Plan's trust or other custodial account (mutual fund plans only, if applicable).

34. **"De Minimis" Small Amount Cashouts**. If selected by the Employer, Participant account balances that do not exceed a certain threshold amount will be automatically cashed out upon the Participant's Termination of Employment or Death, as provided below *[select one]*

☒ Yes, amounts that do not exceed the Internal Revenue Code 402(g) limit for a given year will automatically be cashed out ***($15,500 for 2007 and 2008)***

☐ No, no "de minimis" small amounts will be cashed out.

By signing this Adoption Agreement, the Employer certifies that it has consulted with legal counsel regarding the effects of the Plan, as applicable, on all parties. The Employer further certifies that it has and will limit participation in the Plan to a select group of management or highly compensated Employees, Board Members or Other Service Providers, as determined by the Employer in consultation with legal counsel. The Employer further certifies that it is the Employer's sole responsibility to ensure that each Participant with the right to direct deemed investments under the Plan that are based on securities issued by the Employer or a member of its controlled group (as defined in Code Section 414(b) and (c)) will receive a prospectus for any such deemed investment option based on such Employer securities.

The Employer is solely responsible for its compliance with applicable laws, including Federal and state securities and other applicable laws.

Only those elections that are completed shall be considered as provisions applicable to and forming a part of the Plan.

This Adoption Agreement may only be used in conjunction with the Plan document. All selections in the Adoption Agreement providing for customized or "other" plan provisions are subject to review for administrative feasibility, and may be subject to additional fees.

Terms used in this Adoption Agreement which are defined in the Plan document shall have the meaning given them therein.

The Employer hereby acknowledges that it is adopting this Nonqualified Supplemental Deferred Compensation Plan. Federal legislation or other changes in the law relating to nonqualified deferred compensation or other employee benefit plans may require that the Plan be amended.

* * *

The undersigned duly authorized owner, or officer of the Employer hereby executes the Plan on behalf of the Employer.

Dated this 3 day of November, 2008.

Kraft Foods Global, Inc.
Employer

By /s/ Karen May
Its Executive Vice President

Exhibit 10.20

[KRAFT LETTERHEAD]

December 31, 2008

Irene B. Rosenfeld
Chairman and Chief Executive Officer
Kraft Foods Inc.
Three Lakes Drive
Northfield, IL 60093

Dear Irene,

The letter confirms our agreement to amend the terms of our offer letter to you, dated June 22, 2006 (the "Letter"), relating to the terms and conditions of your compensation and benefits as Chief Executive Officer and member of the Board of Directors of Kraft Foods Inc. The Letter is amended in the following respects, effective December 31, 2008:

1. The following new sentence is added to the Letter immediately before the second to the last sentence in the section entitled *Sign-On Incentives*:

"Any such reimbursement or gross-up payments for any excise or additional taxes incurred by you from the vesting of shares due to a Change in Control shall be made no later than the end of the calendar year following the calendar year in which the taxes are remitted to the taxing authority."

2. The following is substituted for the second and third paragraphs under the heading *Perquisites*:

"You will be eligible for an annual financial counseling allowance of $10,000. You may use any firm of your choosing. The company car allowance and financial counseling allowance will be provided in accordance with the Kraft Executive Perquisite Policy as it may be amended from time to time. In addition, for personal security and safety, the Company will provide for the installation, maintenance, repairs and ongoing monitoring of a security system for your personal residence pursuant to Kraft security protocols and for unlimited personal use of the Company's aircraft, for yourself and any family members or guests traveling with you. The foregoing perquisites shall be provided directly by Kraft or by reimbursement of eligible expenses incurred during the period of your employment."

3. By deleting the last five sentences in the Letter and by adding the following provisions to the Letter immediately after the sentence relating to severance arrangements under the heading *Other Benefits*:

"The amount of any severance pay provided under such arrangements shall be paid by no later than March 15th of the calendar year following the calendar year in which such involuntary termination occurs.

Section 409A of the Code

If you are a "specified employee" (within the meaning of Code section 409A) as of your separation from service (within the meaning of Code section 409A): (a) payment of any amounts under this letter (or under any severance arrangement pursuant to this letter) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be paid upon your separation from service shall not be paid before the date that is six months after the date of your separation from service and any amounts that cannot be paid by reason of this limitation shall be accumulated and paid on the first day of the seventh month following the date of your separation from service (within the meaning of Code section 409A); and (b) any welfare or other benefits (including under a severance arrangement) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be provided upon your separation from service shall be provided at your sole cost during the first six-month period after your separation from service and, on the first day of the seventh month following your separation from service, the Company shall reimburse you for the portion of such costs that would have been payable by the Company for that period if you were not a specified employee.

Reimbursements and Provision of Benefits

Payment of any reimbursement amounts and the provision of benefits by the Company pursuant to this letter (including any reimbursements or benefits to be provided pursuant to a severance arrangement) which the Company determines constitute nonqualified deferred compensation (within the meaning of Code section 409A) shall be subject to the following:

(a) the amount of the expenses eligible for reimbursement or the in-kind benefits provided during any calendar year shall not affect the amount of the expenses eligible for reimbursement or the in-kind benefits to be provided in any other calendar year;

(b) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the calendar year in which the expense was incurred; and

(c) your right to reimbursement or in-kind benefits is not subject to liquidation or exchange for any other benefit."

The foregoing amendment is intended to conform the terms of the Letter to the final regulations issued under section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), but it shall not provide a basis for any action against the Company or any related company based on matters covered by section 409A of the Code.

Please signify your agreement with the terms of this amendment by signing this letter and returning it to my attention.

Sincerely yours,

/s/ Karen J. May

Karen J. May
Executive Vice President,
Human Resources

Acknowledged:

/s/ Irene Rosenfeld

Irene Rosenfeld

[KRAFT LETTERHEAD]

December 31, 2008

Timothy McLevish
Executive Vice President and Chief Financial Officer
Kraft Foods Inc.
Three Lakes Drive
Northfield, IL 60093

Dear Tim,

The letter confirms our agreement to amend the terms of our offer letter to you, dated August 22, 2007 (the "Letter"), for the position of Executive Vice President and Chief Financial Officer. The Letter is amended in the following respects, effective December 31, 2008:

1. The following new sentence is added at the end of the Section entitled *Perquisites*:

"The foregoing perquisites shall be provided, in accordance with the Kraft's Executive Perquisite Policy as it may be amended from time to time, directly by Kraft or by reimbursement of eligible expenses incurred during the period of your employment."

2. The last four sentences of the Letter are deleted and the following provisions are added immediately after the sentence relating to severance arrangements in the event of involuntary termination without cause:

"The amount of any severance pay under such arrangements shall be paid in equal installments at the regularly scheduled dates for payment of salary to Kraft executives and beginning within 30 days of your termination.

<u>Section 409A of the Code</u>

If you are a "specified employee" (within the meaning of Code section 409A) as of your separation from service (within the meaning of Code section 409A):
(a) payment of any amounts under this letter (or under any severance arrangement pursuant to this letter) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be paid upon your separation from service shall not be paid before the date that is six months after the date of your separation from service and any amounts that cannot be paid by reason of this limitation shall be accumulated and paid on the first day of the seventh month following the date of your separation from service (within the meaning of Code section 409A); and
(b) any welfare or other benefits (including under a severance arrangement) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be provided upon your separation from service shall be provided at your sole cost during the first six-month period after your separation from service and, on the first

day of the seventh month following your separation from service, the Company shall reimburse you for the portion of such costs that would have been payable by the Company for that period if you were not a specified employee.

Payment of any reimbursement amounts and the provision of any benefits by the Company pursuant to this letter (including any reimbursements or benefits to be provided pursuant to a severance arrangement) which the Company determines constitute nonqualified deferred compensation (within the meaning of Code section 409A) shall be subject to the following:

(a) the amount of the expenses eligible for reimbursement or the in-kind benefits provided during any calendar year shall not affect the amount of the expenses eligible for reimbursement or the in-kind benefits to be provided in any other calendar year;

(b) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the calendar year in which the expense was incurred; and

(c) your right to reimbursement or in-kind benefits is not subject to liquidation or exchange for any other benefit."

The foregoing amendment is intended to conform the terms of the Letter to the final regulations issued under section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), but it shall not provide a basis for any action against the Company or any related company based on matters covered by section 409A of the Code.

Please signify your agreement with the terms of this amendment by signing this letter and returning it to my attention.

Sincerely yours,

/s/ Karen J. May
Karen J. May
Executive Vice President,
Human Resources

Acknowledged:

/s/ Timothy McLevish
Timothy McLevish

Exhibit 10.23

PERSONAL AND CONFIDENTIAL

November 30, 2006

Dear Sanjay,

I am very pleased to provide you with this letter confirming the verbal offer that I extended to you for the position of President, Kraft International Commercial located in Northfield, Illinois, USA. If you accept our offer, we have discussed our interest in you joining Kraft as soon as possible following the satisfaction of your mutually-agreed upon legal obligation to your current employer and subsequently relocating to Northfield, Illinois. This offer is contingent upon attaining the appropriate work authorizations in the United States. It is expected that your employment with Kraft will be announced early in the week January 22, 2007. This letter sets forth all of the terms and conditions of the offer.

Listed below are details of your compensation and benefits that will apply to this offer.

Annualized Compensation

Annual Base Salary	$ 700,000
Target Management Incentive Plan – (80%*)	$ 560,000
Target Cash Long-Term Incentive Plan – (125%*)	$ 875,000
Target Annual Equity Award (Restricted Stock)	$ 885,000

* Target as a percent of base salary.

As of your effective hire date, you will be considered as a local US employee, compensated within the US salary structure and eligible for US benefits and incentive programs. As a local US employee, you will be responsible for payment of actual US federal and state taxes and Social Security, as required by law.

Annual Incentive Plan

You will be eligible to participate in the Kraft Management Incentive Plan (MIP), which is the Company's annual incentive program. Your target award opportunity under the MIP is equal to 80% of your base salary. The actual amount you will receive may be lower or higher depending on your individual performance and the performance of Kraft Foods Inc. and Kraft International Commercial. Your 2007 award will be paid at a minimum of your target in February 2008. Your MIP eligibility will begin on your employment date.

Long-Term Incentive Plan

You will also be eligible to participate in the Long-Term Incentive Plan (LTIP), which is the Company's executive long-term cash incentive program. The next LTIP performance cycle is scheduled to begin on January 1, 2007 and is scheduled to end on December 31, 2009. Your LTIP eligibility will begin on your employment date. Your target opportunity under the LTIP is equal to 125% of your cumulative base salary during the performance cycle. The actual amount you will receive may be lower or higher depending upon your individual performance and the performance of Kraft Foods Inc. during the performance cycle.

Stock Program

Also, you will be eligible to participate in the Company's stock award program. Stock awards are typically made on an annual basis, with the next award anticipated to be granted in January 2007. Your 2007 stock award will be granted on the later of the annual stock grant date (anticipated at the end of January 2007) or your employment date. Your 2007 award will be no less than your target award of $885,000, if you are employed by March 1, 2007. If you begin employment after March 1, 2007, your stock award will be prorated based on your employment date. The actual amount you receive may be lower or higher depending on your individual performance. The current stock program design is to deliver 100% of equity value in the form of restricted stock with a three-year cliff vest. Award size is based on individual performance.

Sign-On Incentives

In recognition of the loss of short-term and long-term incentives from your previous employer, upon hire, you will receive one-time sign-on incentives in the form of cash and restricted stock as follows:

Cash Sign-On Incentive	$750,000 with two-year repayment agreement
Equity Sign-On Incentive	$750,000 restricted stock award to vest one-third each year over a three-year period

In consideration of the $750,000 cash sign-on incentive, you will be required to repay this amount if you voluntarily resign from Kraft or are involuntarily terminated for "cause" within the first two years from your date of employment. If, your employment with the Company ends due to involuntary termination for reasons other than cause, you will not be required to repay this amount. For your convenience, enclosed is the Special Bonus Agreement form. If you accept our offer, please complete the form, have it notarized, and return it to my attention as soon as possible.

Additionally, upon hire, you will receive a one-time restricted stock award valued at $750,000. If prior to full vesting of the shares granted per this offer letter, your employment with the Company ends due to involuntary termination for reasons other than cause, the value of the total number of unvested shares shall vest on the scheduled vesting dates. The number of shares that you will receive will be determined based upon the fair market value of Kraft Foods Inc. Common Stock on your date of hire. You will receive dividends on the shares during the vesting period consistent in amount and timing with that of Common Stock shareholders. The stock award will vest based on the following schedule:

Number of Shares	Vesting Date
One-third	1st anniversary from date of grant
One-third	2nd anniversary from date of grant
One-third	3rd anniversary from date of grant

For purposes of this offer letter, "cause" means: 1) continued failure to substantially perform the job's duties (other than resulting from incapacity due to disability); 2) 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 3) engaging in other conduct which materially adversely reflects on the Company.

The other terms and conditions set forth in Kraft's standard Stock Award Agreement will apply.

Perquisites

You will be eligible for a company car allowance under the executive perquisite policy. The Company leases new company cars for business and personal use by executives. Under the policy, cars are leased for a three-year period. The company will provide you with a car with a maximum value of $45,000. You can invest your own funds if the value of the car exceeds $45,000. You will have an opportunity to purchase the car at the end of the lease period. You will be eligible for an annual financial counseling allowance of $7,500. You may use any firm of your choosing.

Stock Ownership Guidelines

You will be required to attain and hold Company stock equal in value to five times your base salary. You will have five years from your date of employment to achieve this level of ownership. Stock held for ownership determination includes common stock held directly or indirectly, unvested restricted stock or share equivalents held in the Company's 401(k) plan. It does not include unexercised stock option shares.

Professional Services

You shall be reimbursed for your reasonable professional fees to complete the review of your employment arrangements with the Company.

As a local US employee, you will be responsible for payment of actual US federal and state taxes and Social Security, as required by law.

Kraft will provide for preparation of your tax returns for two years after you arrive in the US (i.e., US tax years 2007 and 2008) through KPMG, the Company's current tax services provider for employees on an international assignment.

Other Benefits

Your offer includes Kraft's comprehensive benefits package available to full-time salaried employees. This benefits package is described in the enclosed Kraft Benefits Summary brochure. You will be eligible for four weeks of vacation. In addition, you are eligible for ten designated holidays and two personal days.

Kraft will commit to applying for an appropriate work visa for you. Our commitment includes the use of Kraft-selected immigration attorneys and payment of all associated costs and fees. Kraft will also commit to applying for permanent residency status on your behalf as soon as possible in line with the current immigration laws of the United States. If you resign from Kraft prior to receipt of your permanent residency status, you will be fully responsible for all costs associated with your required departure from the United States. In the event that your employment is involuntarily terminated prior to receipt of your permanent residency status, Kraft will reimburse the cost of return flights for you and your family and the costs to move your personal goods to either the United Kingdom, Holland or New Zealand.

You will be a U.S. employee of Kraft Foods and your employment status will be governed by and shall be construed in accordance with the laws of the United States. As such, your status will be that of an “at will” employee. This means that either you or Kraft is free to terminate the employment relationship at any time, for any reason. If your employment with the Company ends due to an involuntary termination other than for cause, you will receive severance arrangements no less favorable than those accorded recently terminated senior executives of the Company. Any severance arrangement the Company offers will ensure that you remain on the Company’s payroll in the U.S. for a period of no less than six months to ensure you have a maximum flexibility to determine your employment/residency options following your separation from Kraft.

This offer is contingent upon successful completion of our pre-employment checks, which may include a background screen, reference check, and post–offer drug test pursuant to testing procedures determined by Kraft.

This offer of employment will expire on December 1, 2006 or some later date to be mutually agreed upon. If you accept our offer, please indicate your acceptance by signing below and returning a copy of this letter by fax.

I look forward to your favorable response to our offer.

Sincerely,

/s/ Karen J. May

Karen J. May
Executive Vice President, Global Human Resources

I accept the offer as expressed above.

/s/ Sanjay Khosla	1st December 2006
Signature	Date

Enclosure: Kraft Foods Benefits Summary
Restricted Stock Agreement
Special Bonus Agreement Form

Exhibit 10.24

[KRAFT LETTERHEAD]

December 31, 2008

Sanjay Khosla
Executive Vice President and President, Kraft International
Kraft Foods Inc.
Three Lakes Drive
Northfield, IL 60093

Dear Sanjay,

The letter confirms our agreement to amend the terms of our offer letter to you, dated November 30, 2006 (the "Letter"), for the position of President, Kraft International Commercial. The Letter is amended in the following respects, effective December 31, 2008:

1. The following new sentence is added at the end of the paragraph entitled *Perquisites*:

"The foregoing perquisites shall be provided, in accordance with Kraft's Executive Perquisite Policy as it may be amended from time to time, by direct payment or by reimbursement of eligible expenses incurred during the period of your employment."

2. By deleting the last two paragraphs in the Section of the Letter entitled *Other Benefits* and by adding the following new provisions to the Letter immediately after the last sentence in the paragraph that provides for severance arrangements in the event of involuntary termination other than for cause:

"The amount of any severance pay under such severance arrangements shall be paid in equal monthly installments at the regularly scheduled dates for payment of salary to the Kraft executives and beginning within 30 days of your termination.

Section 409A of the Code

If you are a "specified employee" (within the meaning of Code section 409A) as of your separation from service (within the meaning of Code section 409A): (a) payment of any amounts under this letter (or under any severance arrangement pursuant to this letter) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be paid upon your separation from service shall not be paid before the date that is six months after the date of your separation from service and any amounts that cannot be paid by reason of this limitation shall be accumulated and paid on the first day of the seventh month following the date of your separation from service (within the meaning of Code section 409A); and (b) any welfare or other benefits (including under a severance arrangement) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be provided upon your separation from service shall be provided at your sole cost during the first six-month period after your separation from service and, on the first day of the seventh month following your separation from service, the Company shall reimburse you for the portion of such costs that would have been payable by the Company for that period if you were not a specified employee.

Payment of any reimbursement amounts and the provision of any benefits by the Company pursuant to this letter (including any reimbursements or benefits to be provided pursuant to a severance arrangement) which the Company determines constitute nonqualified deferred compensation (within the meaning of Code section 409A) shall be subject to the following:

(a) the amount of the expenses eligible for reimbursement or the in-kind benefits provided during any calendar year shall not affect the amount of the expenses eligible for reimbursement or the in-kind benefits to be provided in any other calendar year;

(b) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the calendar year in which the expense was incurred; and

(c) your right to reimbursement or in-kind benefits is not subject to liquidation or exchange for any other benefit."

The foregoing amendment is intended to conform the terms of the Letter to the final regulations issued under section 409A of the Internal Revenue Code of 1986, as amended (the "Code") "), but it shall not provide a basis for any action against the Company or any related company based on matters covered by section 409A of the Code.

Please signify your agreement with the terms of this amendment by signing the letter and returning it to my attention.

Sincerely yours,

/s/ Karen J. May

Karen J. May
Executive Vice President,
Human Resources

Acknowledged:

/s/ Sanjay Khosla

Sanjay Khosla

PERSONAL AND CONFIDENTIAL

March 10, 2008

Mr. Michael Osanloo
1623 North Paulina St.
Chicago, IL 60622

Dear Michael,

I am very pleased to provide you with this letter confirming the verbal offer that has been extended to you for the position of Executive Vice President, Strategy, reporting to me, located in Northfield, Illinois. If you accept our offer, we have discussed our interest in you joining Kraft as soon as possible. This letter sets forth all of the terms and conditions of the offer.

Listed below are details of your compensation and benefits that will apply to this offer.

Annualized Compensation

Annual Base Salary	$450,000
Target Management Incentive Plan – (60%*)	$270,000
Target Long-Term Incentive Plan – (75%*)	$337,500**
Target Annual Equity Award Range	$252,500 - $757,500 ($505,000 midpoint)

* Target as a percent of base salary.

** This will be your annualized target beginning in year 3 when you are participating in three concurrent, overlapping performance cycles at the same time. The amount earned under the 2008-2010 performance cycle will be prorated based on your hire date.

Annual Incentive Plan

You will be eligible to participate in the Kraft Management Incentive Plan (MIP), which is the Company's annual incentive program. Your target award opportunity under the MIP is equal to 60% of your base salary. The actual amount you will receive may be lower or higher depending on your individual performance and the performance of Kraft Foods Inc. Your 2008 award will be payable in February/March 2009. Your MIP eligibility will begin on your date of employment.

Long-Term Incentive Plan

You will also be eligible to participate in the Long-Term Incentive Plan (LTIP), which is the Company's executive long-term incentive program. The LTIP program is typically a three-year performance plan with a new performance cycle beginning each year in January.

The most recent three-year LTIP performance cycle began on January 1, 2008 and is scheduled to end on December 31, 2010. Your LTIP eligibility will begin on your employment date with participation in the 2008 – 2010 performance cycle. Your target opportunity under the LTIP is equal to 75% of your base salary at the beginning of the performance cycle. The actual award you will receive may be lower or higher depending upon the performance of Kraft Foods Inc. during the performance cycle. The form of award under this program is performance shares. The number of performance shares under the 2008 – 2010 performance cycle is equal to your target divided by the fair market value of Kraft stock on January 2, 2008, prorated for your date of hire. For clarity, LTIP will be as follows:

- You will begin with participation in the 2008 – 2010 performance cycle on a pro-rated basis based on your date of hire. The resulting shares will be available at the end of the performance cycle (anticipate availability in early 2011).
- You will therefore earn one-third (on a prorated basis) of your annualized target in 2008.
- Beginning January 1, 2009, you will be eligible to participate in the 2009 – 2011 performance cycle. At that point you will be earning two-thirds of your annualized target. The resulting shares will be available at the end of the performance cycle (anticipate availability in early 2012).
- Beginning January 1, 2010, you will be eligible to participate in the 2010 – 2012 performance cycle. At that point you will be earning your full annualized target. The resulting shares will be available at the end of the performance cycle (anticipate availability in early 2013).

Stock Program

Also, you will be eligible to participate in the Company's stock award program. Stock awards are typically made on an annual basis, with the next award anticipated to be granted in the first quarter of 2009. Awards are delivered as follows: 50% of equity value is delivered in restricted stock and 50% in stock options. Actual award size is based on individual potential and performance.

<u>Sign-On Incentives</u>

In recognition of the loss of short-term and long-term incentives from your previous employer, upon hire, you will receive one-time sign-on incentives in the form of cash and equity as follows:

Cash Sign-On Incentive: $400,000; payable $200,000 upon hire and $200,000 payable one-year after your date of hire; a two-year repayment agreement will be required for each separate payment

Equity Sign-On Incentive: $1,000,000 granted as:

- 50% restricted stock award to vest 100% after three years (dividends will be paid quarterly during vesting period with no restriction)
- 50% stock options based on a 1:4 ratio of restricted shares to stock options vesting one-third each year over a three-year period

If, prior to the end of the two year repayment period, your employment with the Company ends due to involuntary termination for reasons other than cause, you will not be required to repay the cash sign-on amount.

The other terms and conditions set forth in Kraft’s standard Stock Award Agreements will apply.

For purposes of this offer letter, “cause” means: 1) continued failure to substantially perform the job’s duties (other than resulting from incapacity due to disability); 2) 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 3) engaging in other conduct which materially adversely reflects on the Company.

<u>Perquisites</u>

You will be eligible for a company car allowance under the executive perquisite policy. The Company leases new company cars for business and personal use by executives. Under the policy, cars are leased for a three-year period. The company will provide you with a car with a maximum value of $45,000. You can invest your own funds if the value of the car exceeds $45,000. You will have an opportunity to purchase the car at the end of the lease period. You will be eligible for an annual financial counseling allowance of $7,500. You may use any firm of your choosing.

<u>Stock Ownership Guidelines</u>

You will be required to attain and hold Company stock equal in value to four times your base salary. You will have five years from the date of employment to achieve this level of ownership. Stock held for ownership determination includes common stock held directly or indirectly, unvested restricted stock or share equivalents held in the Company’s 401(k) plan. It does not include unexercised stock option shares.

<u>Other Benefits</u>

Your offer includes Kraft's comprehensive benefits package available to full-time salaried employees. This benefits package is described in the enclosed Kraft Benefits Summary brochure. You will be eligible for 25 days of paid time off.

You will be a U.S. employee of Kraft Foods and your employment status will be governed by and shall be construed in accordance with the laws of the United States. As such, your status will be that of an "at will" employee. This means that either you or Kraft is free to terminate the employment relationship at any time, for any reason.

If your employment with the Company ends due to an involuntary termination other than for cause, you will receive severance arrangements no less favorable than those accorded recently terminated senior executives of the Company.

This offer is contingent upon successful completion of our pre-employment checks, which may include a background screen, reference check, and post-offer drug test pursuant to testing procedures determined by Kraft.

Sincerely,

/s/ Irene B. Rosenfeld

Irene B. Rosenfeld
Chairman and Chief Executive Officer
Kraft Foods Inc.

I accept the offer as expressed above.

/s/ Michael Osanloo	March 10, 2008
Signature	Date

Enclosure: Kraft Foods Benefits Summary
Restricted Stock Agreement
Stock Option Agreement
Employee Expense Repayment Agreement

[KRAFT LETTERHEAD]

December 31, 2008

Michael Osanloo
Executive Vice President, Strategy
Kraft Foods Inc.
Three Lakes Drive
Northfield, IL 60093

Dear Michael,

The letter confirms our agreement to amend the terms of our offer letter to you, dated March 9, 2008 (the "Letter"), for the position of Executive Vice President, Strategy. The Letter is amended in the following respects, effective December 31, 2008:

1. The following new sentence is added at the end of the paragraph entitled *Perquisites*:

"The foregoing perquisites shall be provided, in accordance with Kraft's Executive Perquisite Policy as it may be amended from time to time, by direct payment or by reimbursement of eligible expenses incurred during the period of your employment."

2. By deleting the last two sentences of the Letter and by adding the following new provisions immediately after the last sentence on page 3 of the Letter (relating to severance arrangements in the event of involuntary termination other than for cause):

"The amount of any severance pay under any such arrangement shall be paid in equal installments at the regularly scheduled dates for payment of salary to the Kraft executives and beginning within 30 days of your termination.

<u>Section 409A of the Code</u>

If you are a "specified employee" (within the meaning of Code section 409A) as of your separation from service (within the meaning of Code section 409A):
(a) payment of any amounts under this letter (or under any severance arrangement pursuant to this letter) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be paid upon your separation from service shall not be paid before the date that is six months after the date of your separation from service and any amounts that cannot be paid by reason of this limitation shall be accumulated and paid on the first day of the seventh month following the date of your separation from service (within the meaning of Code section 409A); and
(b) any welfare or other benefits (including under a severance arrangement) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be provided upon your separation from service shall be provided at your sole cost during the first six-month period after your separation from service and, on the first

day of the seventh month following your separation from service, the Company shall reimburse you for the portion of such costs that would have been payable by the Company for that period if you were not a specified employee.

Payment of any reimbursement amounts and the provision of any benefits by the Company pursuant to this letter (including any reimbursements or benefits to be provided pursuant to a severance arrangement) which the Company determines constitute nonqualified deferred compensation (within the meaning of Code section 409A) shall be subject to the following:

(a) the amount of the expenses eligible for reimbursement or the in-kind benefits provided during any calendar year shall not affect the amount of the expenses eligible for reimbursement or the in-kind benefits to be provided in any other calendar year;

(b) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the calendar year in which the expense was incurred; and

(c) your right to reimbursement or in-kind benefits is not subject to liquidation or exchange for any other benefit."

The foregoing amendment is intended to conform the terms of the Letter to the final regulations issued under section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), but it shall not provide a basis for any action against the Company or any related company based on matters covered by section 409A of the Code.

Please signify your agreement with the terms of this amendment by signing the letter and returning it to my attention.

Sincerely yours,

/s/ Karen J. May

Karen J. May
Executive Vice President,
Human Resources

Acknowledged:

/s/ Michael Osanloo

Michael Osanloo

Exhibit 10.27

PERSONAL AND CONFIDENTIAL

December 10, 2008

Mr. Michael Clarke

Dear Mike,

I am very pleased to provide you with this letter confirming the verbal offer that has been extended to you for the position of President, Kraft Europe located in Zurich, Switzerland reporting to Irene Rosenfeld, Chairman and Chief Executive Officer. If you accept our offer, we have discussed our interest in you joining Kraft at the beginning of January 2009. This letter sets forth all of the terms and conditions of the offer.

Listed below are details of your compensation and benefits that will apply to this offer.

Annualized Compensation

Annual Base Salary*	$650,000
Target Management Incentive Plan – (80%**)	$520,000
Target Long-Term Incentive Plan – (125%**)	$812,500
Target Annual Equity Award Range	$442,500 - $885,000 - $1,327,500

* Your next salary review is anticipated to be April 1, 2010.

** Target as a percent of base salary.

Annual Incentive Plan

You will be eligible to participate in the Kraft Management Incentive Plan (MIP), which is the Company's annual incentive program. Your target award opportunity under the MIP is equal to 80% of your base salary annually. The actual amount you will receive may be lower or higher depending on your individual performance and the performance of Kraft Foods Inc. Your 2009 award will be payable in February/March 2010. Your MIP eligibility will begin on your date of employment.

Long-Term Incentive Plan

You will also be eligible to participate each year in the Long-Term Incentive Plan (LTIP), which is the Company's executive long-term cash incentive program. The LTIP program is typically a three-year performance plan with a new performance cycle beginning each year in January.

The next LTIP performance cycle will begin on January 1, 2009 and is scheduled to end on December 31, 2011. Your LTIP eligibility will begin on your employment date. Your target opportunity under the LTIP is equal to 125% of your base salary at the beginning of the performance cycle. The actual award you will receive may be lower or higher depending upon the performance of Kraft Foods Inc. during the performance cycle. The form of award under this program is performance shares with the number of shares based on the fair market value of Kraft stock on January 2, 2009. The first shares paid under this program will be at the conclusion of the 2009 – 2011 performance cycle, which will likely be in early 2012.

Stock Program

Also, you will be eligible to participate in the Company's stock award program. Stock awards are typically made on an annual basis, and you will be eligible to participate in the next award which is expected to be granted in the first quarter of 2009. Your 2009 award will be a minimum of your Target equity award ($885,000). Awards are delivered as follows: 50% of equity value is delivered in deferred stock units and 50% in stock options. Actual award size is based on individual potential and performance.

Sign-On Incentive

In partial recognition of the loss of long-term incentives from your previous employer and to assist in beginning to build equity in Kraft, you will receive a one-time deferred stock award on joining with a grant value of $750,000. This award will fully vest three years from the date of grant. You will be paid quarterly dividend equivalents during the vesting period with no restrictions.

If prior to full vesting of the sign-on equity granted per this offer letter, your employment with the Company ends due to involuntary termination for reasons other than cause, the value of the total number of unvested shares shall vest on the scheduled vesting dates. The number of shares that you will receive will be determined based upon the fair market value of Kraft Foods Inc. Common Stock on your date of hire.

The other terms and conditions set forth in Kraft's standard Stock Award Agreements will apply.

For purposes of this offer letter, "cause" means: 1) continued failure to substantially perform the job's duties (other than resulting from incapacity due to disability); 2) 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 3) engaging in other conduct which materially adversely reflects on the Company.

Perquisites

You will be eligible for a company car allowance under the local Switzerland Car Policy. You will also be eligible for an annual financial counseling allowance of $7,500. You may use any firm of your choosing. The foregoing perquisites shall be provided, in accordance with Kraft's relevant policies, as may be amended from time to time, directly by Kraft or by reimbursement of eligible expenses incurred during the period of your employment.

Stock Ownership Guidelines

You will be required to attain and hold Company stock equal in value to $2,500,000. You will have five years from your date of employment to achieve this level of ownership. Stock held for ownership determination includes common stock held directly or indirectly, unvested restricted stock or share equivalents held in the Company's 401(k) plan. It does not include unexercised stock option shares or unvested performance shares.

Expatriate and Relocation Benefits

The main elements from the International Assignment Policy of your expatriation package at the start of your assignment are summarized below.

General Information

Payments of all compensation and assignment allowances will be made via the Kraft United States payroll. These allowances are all job related items and will not be included as part of your compensation package after completion of this assignment. Please note that you will be provided a detailed balance sheet shortly. Please note that your balance sheet will change during your assignment as a result of salary increases, promotions, changes in family size, currency fluctuations, etc.

The theoretical taxes will be based on standard United States deductions in reference to your base salary only. Incentive compensation will be further taxed when received. The resulting total will be a theoretical representation of United States taxes on Company income only and these figures will be reviewed annually in line with the United States tax calendar.

You will be eligible to receive a Goods and Services Differential, or what is also commonly referred to as a Cost of Living Allowance. The Goods and Services Differential, as well as corresponding exchange rates will be monitored by ORC, our external consultant, on an on-going basis. It may be adjusted up or down to reflect differences in cost of living standards between the United States and Zurich.

Housing and Transportation

During your assignment in Switzerland, you will be provided with appropriate housing according to Switzerland policies and guidelines.

Education Assistance

You will be provided educational assistance for any eligible dependents while on an international assignment with the Company per the International Assignment Policy.

Other International Assignment Allowances

At the end of your assignment, subject to satisfactory performance, and management discretion, you will be paid a lump sum Mobility Premium of 7.5% of your end of host assignment salary, capped at the midpoint of your Salary Grade/Band.

If the assignment in Switzerland lasts for less than two years, the mobility premium will be prorated for the number of months on assignment, in the second year. For example if your assignment lasts 18 months, then 6 months of the second year is completed so the mobility premium is 3.75% (6/12 or 50% of the 7.5%).

The Company will provide for the move of your household to Zurich. Once you have relocated to the Zurich area, the Company will pay you a Relocation Allowance equal to USD $65,849. This is equal to one month's home/host base "notional" salary. This home/host base "notional" salary is calculated by taking the average of the midpoints of the home and host country salary ranges for your Salary Grade/Band. This is paid net of tax and social security.

During your assignment to Switzerland, you and your dependant family members will be entitled to annual home leave payments. Sydney, Australia will be considered the city and country of record for the determination of home leave allowances.

Expatriate Tax Services

Kraft Foods will engage its tax service provider (currently KPMG) in support of your assignment for all your tax filings in any jurisdiction.

During the period of your assignment with Kraft Foods, you will be fully responsible for tax filings in conjunction with Kraft's tax service provider. You will be responsible for all penalties and interest charges assessed by any tax authority or for any additional fees assessed by Kraft's tax service provider due to your failure a) to provide information to Kraft's service provider on a timely basis; b) to notify Kraft's tax service provider of any significant personal income or investment transactions or c) co-operate with Kraft Foods and Kraft's tax service provider with respect to the tax return process.

Other Terms and Conditions

Chicago, United States will be considered the city and country of record for the determination of compensation allowances.

If legally permitted, you will remain in your home country Social Security scheme. If this is not possible, Kraft will make Swiss social security contributions on your behalf and take a hypothetical US social security contribution from you via payroll. You are eligible for the health insurance plan available to expatriate employees. Details and terms will be provided separately.

International assignment benefits and allowances do not form part of your regular pay and they will cease to be paid once your assignment has ended.

Kraft Foods is an international company, which is active in developing the skills and careers of its employees. As part of your career and skills development program, information about your employee status, personnel profile and similar information may be sent to other subsidiaries or divisions of the Kraft Foods group of companies. This information is considered confidential and will be treated as such in the course of your international assignment. By signing this letter you agree to allow Kraft Foods to transmit/send your personal information.

You agree to keep confidential and not use for your own account without the written consent of Kraft Foods, any Confidential and Trade Secret Information to which you may be exposed or which comes into your possession, or which you may develop, either solely or jointly with others, as a result of your employment by Kraft Foods. For purposes of this agreement, the term “Confidential and Trade Secret Information” shall include all information of Kraft Foods which is not available to the public, including, but not limited to, marketing, credit, customer and pricing information; promotional arrangements and programs (including, but not limited to, national, regional, local and customer-specific trade deals); technical, engineering and scientific information; and, business or new product plans or information. You further agree to return to Kraft Foods upon termination of employment, any and all documents and/or other property of Kraft Foods made or obtained during your employment, including but not limited to that pertaining to or containing any Confidential and/or Trade Secret Information.

Pension Benefit

While on an international assignment, you will be eligible to participate in the Company’s Mobile Employee Retirement Plan (MERP). Any benefit you earn under the MERP will be based on credited service earned while you remain eligible in the MERP. Vesting service in the MERP will be based on the total number of years you remained employed with the Company, whether or not you remain eligible for the MERP. Your final average earnings will be calculated based on your earnings with the Company at the time of your retirement.

Other Benefits

You will be reimbursed for any professional fees related to a review of the offer materials up to a maximum of $15,000.

Your offer includes Kraft’s comprehensive benefits package available to full-time salaried employees. This benefits package is described in the enclosed Kraft Benefits Summary brochure. You will be eligible for 30 days of paid time off.

For the avoidance of doubt, the terms and conditions of employment will be governed by and shall be construed in accordance with the laws of United States. Any dispute in connection with your employment shall be resolved in accord with the dispute resolution mechanism called for in any employment agreement or other documents or, if none, in accord with the procedure that is customary in Chicago.

If your employment with the Company ends due to an involuntary termination other than for cause, you will receive severance arrangements no less favorable than those accorded to recently terminated or other senior executives of the Company.

U.S. Internal Revenue Code Section 409A

If at the time of a separation in which severance payments will be due and you are subject to U.S. taxes, the following terms, in compliance with U.S. Internal Revenue Code Section 409 A will apply.

The amount of any severance pay under such arrangements shall be paid in equal installments at the regularly scheduled dates for payment of salary to Kraft executive and beginning within 30 days of your termination.

If you are a "specified employee" (within the meaning of Code section 409A) as of your separation from service (within the meaning of Code section 409A): (a) payment of any amounts under this letter (or under any severance arrangement pursuant to this letter) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be paid upon your separation from service shall not be paid before the date that is six months after the date of your separation from service and any amounts that cannot be paid by reason of this limitation shall be accumulated and paid on the first day of the seventh month following the date of your separation from service (within the meaning of Code section 409A); and (b) any welfare or other benefits (including under a severance arrangement) which the Company determines constitute the payment of nonqualified deferred compensation (within the meaning of Code section 409A) and which would otherwise be provided upon your separation from service shall be provided at your sole cost during the first six-month period after your separation from service and, on the first day of the seventh month following your separation from service, the Company shall reimburse you for the portion of such costs that would have been payable by the Company for that period if you were not a specified employee.

Payment of any reimbursement amounts and the provision of benefits by the Company pursuant to this letter (including any reimbursements or benefits to be provided pursuant to a severance arrangement) which the Company determines constitute nonqualified deferred compensation (within the meaning of Code section 409A) shall be subject to the following:

(a) the amount of the expenses eligible for reimbursement or the in-kind benefits provided during any calendar year shall not affect the amount of the expenses eligible for reimbursement or the in-kind benefits to be provided in any other calendar year;

(b) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the calendar year in which the expense was incurred; and

(c) your right to reimbursement or in-kind benefits is not subject to liquidation or exchange for any other benefit."

The Company acknowledges that you will have two non-executive appointments at any time during your employment with Kraft provided that one appointment shall be on a 'not for profit' basis and neither appointment shall give rise to any conflict of interests with your duties under this agreement.

This offer is contingent upon successful completion of our pre-employment checks, which may include a background screen, reference check, and post-offer drug test pursuant to testing procedures determined by Kraft.

Sincerely,

/s/ Karen May

Karen May
Executive Vice President Human Resources
Kraft Foods Inc.

I accept the offer as expressed above.

/s/ Michael Clarke	11 December 2008
Signature	Date

INDEMNITY AGREEMENT

This Indemnification Agreement (“Agreement”) is made as of [__________] by and between Kraft Foods Inc., a Virginia corporation (the “Company”), and [__________] (“Indemnitee”).

RECITALS

WHEREAS, highly competent persons have become more reluctant to serve publicly-held corporations as directors unless they are provided with adequate indemnification against risks of claims and actions against them arising out of their service to and activities on behalf of the corporation;

WHEREAS, the Articles of Incorporation of the Company and the Virginia Stock Corporation Act (the “Virginia Act”) expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the board of directors, officers and other persons with respect to indemnification;

WHEREAS, a recent court decision in Delaware has created concerns as to the reliability of indemnification of directors as protection against personal liability;

WHEREAS, it is reasonable and prudent for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, its directors to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be protected, and to confirm that when they cease to be directors they will continue to be entitled to such indemnification and advancement of expenses; and

WHEREAS, this Agreement is a supplement to and in furtherance of the Articles of Incorporation of the Company and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. Services to the Company. Indemnitee agrees to serve as a director of the Company. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law). This Agreement shall not be deemed an employment contract between the Company and Indemnitee. The foregoing notwithstanding, this Agreement shall continue in force after Indemnitee has ceased to serve as a director of the Company.

Section 2. Definitions. As used in this Agreement:

(a) A “Change in Control” shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

(i) Acquisition of Stock by Third Party. Any Person (as defined below) is or becomes the Beneficial Owner (as defined below), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding securities;

(ii) Change in Board of Directors. During any period of two (2) consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has effected, or entered into an agreement with the Company to effect, a transaction described in Sections 2(a)(i), 2(a)(iii) or 2(a)(iv)) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the members of the Board;

(iii) Corporate Transactions. The effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity;

(iv) Dissolution or Disposition of Assets. The approval by the shareholders of the Company of the dissolution of the Company or of an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; and

(v) Other Events. There occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act (as defined below), whether or not the Company is then subject to such reporting requirement.

For purposes of this Section 2(a), the following terms shall have the following meanings:

(A) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(B) "Person" shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act; provided, however, that Person shall exclude (i) the Company, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, and (iii) any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(C) "Beneficial Owner" shall have the meaning given to such term in Rule 13d-3 under the Exchange Act; provided, however, that Beneficial Owner shall exclude any Person otherwise becoming a Beneficial Owner by reason of the shareholders of the Company approving a merger of the Company with another entity, and further provided, that any calculation of securities beneficially owned by a Beneficial Owner shall include securities that are the subject of a derivative that creates for the Beneficial Owner the economic equivalent of ownership in such securities for the Beneficial Owner by tying the value of the derivative to the price or value of such securities.

(b) "Corporate Status" describes the status of a person who is or was a director, officer, employee or agent of the Company or of any other corporation, limited liability company, partnership or joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the request of the Company.

(c) "Disinterested Director" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(d) "Enterprise" shall mean the Company and any other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary.

(e) "Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(f) "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past three years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel referred to above and to indemnify such counsel fully against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(g) The term "Proceeding" shall include any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative or investigative nature, in which Indemnitee was, is or will be involved as a party or otherwise by reason of the fact that Indemnitee is or was a director of the Company, by reason of any action taken by him or of any action on his part while acting as director of the Company, or by reason of the fact that he is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, limited liability company, partnership, joint venture, trust or other enterprise, in each case whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification, reimbursement or advancement of expenses can be provided under this Agreement; except one initiated by Indemnitee to enforce his rights under this Agreement.

(h) Reference to "other enterprise" shall include employee benefit plans; references to "fines" shall include any excise tax assessed with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director of the Company which imposes duties on, or involves services by, such director with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed not to have engaged in willful misconduct or a knowing violation of criminal law.

Section 3. (a) Indemnity in Third-Party Proceedings. The Company shall indemnify Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding, including a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on his behalf in connection with such Proceeding or any claim, issue or matter therein, except for indemnification of the Indemnitee for his willful misconduct or his knowing violation of the criminal law.

(b) Settlement.

(i) The Company shall have no obligation to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding Indemnitee effected without the Company's prior written consent, not to be unreasonably withheld.

(ii) The Company shall not, without the prior written consent of Indemnitee (not to be unreasonably withheld), consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise which (A) includes an admission of fault of Indemnitee, any non-monetary remedy affecting or obligation of Indemnitee, or monetary obligation for which Indemnitee is not indemnified hereunder or (B) with respect to any

Proceeding with respect to which Indemnitee is likely to be or is made a party, witness or participant or is otherwise entitled to seek indemnification hereunder, does not include, as an unconditional term thereof, the full release of Indemnitee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnitee.

Section 4. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement, (other than Section 6(a) or (c) of this Agreement), to the fullest extent permitted by applicable law and to the extent that Indemnitee is a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall, subject to Section 6(a) and (c) of this Agreement, indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. If the Indemnitee is not wholly successful in such Proceeding, the Company also shall, subject to Section 6(a) and (c) of this Agreement, indemnify Indemnitee against all Expenses reasonably incurred in connection with a claim, issue or matter related to any claim, issue, or matter on which the Indemnitee was successful. For purposes of this Section 4 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 5. Indemnification For Expenses of a Witness. Notwithstanding any other provision of this Agreement (other than Section 6(a) and (c) of this Agreement), to the fullest extent permitted by applicable law and to the extent that Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

Section 6. Exclusions. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision; or

(b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended; or

(c) in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee prior to a Change of Control against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board of Directors of the Company authorized the Proceeding (or any part of any Proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

Section 7. Advances of Expenses.

(a) In accordance with the pre-existing requirement of Section VI C of the Articles of Incorporation of the Company, and notwithstanding any provision of this Agreement to the contrary but subject to Section 7(c) of this Agreement, the Company shall advance, to the extent not prohibited by law, the Expenses reasonably incurred by Indemnitee in connection with any Proceeding, and such advancement shall be made within 30 days after the receipt by the Company of a statement or statements requesting such advances (supported by statements in reasonable detail of Expenses incurred or to be incurred within the next 30 days) from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee’s ability to repay the Expenses and without regard to Indemnitee’s ultimate entitlement to indemnification under the other provisions of this Agreement. Advances shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. The Indemnitee shall qualify for advances upon the execution and delivery to the Company of this Agreement which shall constitute an undertaking that the Indemnitee will repay the advance to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company.

(b) In the event the Company is obligated under this Section 7 hereof to pay, and pays the Expenses of any Proceeding against Indemnitee, the Company, if appropriate, shall be entitled to assume the defense of such Proceeding, with counsel approved by Indemnitee, which approval shall not be unreasonably withheld, upon the delivery to Indemnitee of written notice of its election so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same Proceeding, provided that (i) Indemnitee shall have the right to employ his counsel in any such Proceeding at Indemnitee’s expense; and (ii) if (A) the employment of counsel by Indemnitee has been previously authorized by the Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense or (C) the Company shall not, in fact, have employed counsel approved by Indemnitee to assume the defense of such Proceeding, then the fees and expenses of Indemnitee’s counsel shall be at the expense of the Company.

(c) This Section 7 shall not apply to any claim made by Indemnitee for which indemnity is excluded pursuant to Section 6(a) or (c) of this Agreement.

Section 8. Procedure for Notification and Defense of Claim. To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of such action, suit or proceeding. The omission to notify the Company will not relieve the Company from any liability which it may have to Indemnitee otherwise than under this Agreement. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification.

Section 9. Procedure Upon Application for Indemnification.

(a) Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 8, a determination, if required by applicable law, with respect to Indemnitee’s entitlement thereto shall be made in the specific case in accordance with Section 13.1-701(B) of the Virginia Act and Section VI C of the Company’s Articles of Incorporation. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee’s entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including reasonable attorneys’ fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee’s entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 9(a) hereof, the Independent Counsel shall be selected as provided in this Section 9(b). If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Board of Directors, and the Company shall give written notice to Indemnitee advising him of the identity of the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board of Directors, in which event the preceding sentence shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within 10 days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of “Independent Counsel” as defined in Section 2 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within twenty (20) days after the later of submission by Indemnitee of a written request for indemnification pursuant to Section 8 hereof and the final disposition of the Proceeding, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Virginia Court (as defined in Section 20 of this Agreement) for resolution of any objection which shall have been made by the Company or Indemnitee to the other’s selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the Court or by such other person as the Court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 9(a) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 11(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

Section 10. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 8 of this Agreement, and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption. Neither the failure of the Company (including by its directors or Independent Counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or Independent Counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) Subject to Section 11(e), if the person, persons or entity empowered or selected under Section 9 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee’s statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 10(b) shall not apply if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 9(a) of this Agreement.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee was guilty of willful misconduct or a knowing violation of criminal law.

(d) Actions of Others. The knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

Section 11. Remedies of Indemnitee.

(a) Subject to Section 11(e), in the event that (i) a determination is made pursuant to Section 9 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 7 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 9(a) of this Agreement within 90 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 4 or 5 or the last sentence of Section 9(a) of this Agreement within ten (10) days after receipt by the Company of a written request therefor, or (v) payment of indemnification pursuant to Section 3 of this Agreement is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication by a court of his entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within one hundred eighty (180) days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 11(a); provided, however, that the foregoing clause shall not apply in respect of a proceeding brought by Indemnitee to enforce his rights under Section 4 of this Agreement. The Company shall not oppose Indemnitee’s right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 9(a) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 11 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 11 the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made pursuant to Section 9(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 11, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee’s statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 11 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. The Company shall indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefor) advance, to the extent not prohibited by law, such expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by

Indemnitee for indemnification or advance of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of Expenses or insurance recovery, as the case may be.

(e) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding.

Section 12. Non-exclusivity; Survival of Rights; Insurance; Subrogation.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Company's Articles of Incorporation, any agreement, a vote of shareholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in Virginia law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Company's Articles of Incorporation and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees or agents of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies. If, at the time of the receipt of a notice of a claim eligible for indemnification pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (or for which advancement is provided hereunder) if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(e) The Company's obligation to indemnify or advance Expenses hereunder to Indemnitee with respect to service at the request of the Company as a director, officer, employee or agent of any other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of expenses from such other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise with respect to such service.

Section 13. Duration of Agreement. This Agreement shall continue until and terminate upon the later of: (i) ten (10) years after the date that Indemnitee shall have ceased to serve as a director of the Company or (ii) one (1) year after the final termination of any Proceeding then pending in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 11 of this Agreement relating thereto. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and his heirs, executors and administrators.

Section 14. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 15. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to continue to serve as a director of the Company and/or to confirm to Indemnitee that after he ceases to be a director he will continue to be entitled to indemnification and advancement of expenses by the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in continuing to serve as a director of the Company and has provided other good and valuable consideration in connection with this Agreement, the sufficiency and receipt of which are hereby acknowledged.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; provided, however, that this Agreement is a supplement to and in furtherance of, the Articles of Incorporation of the Company and applicable law, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

Section 16. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties thereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

Section 17. Notice by Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter that may be subject to indemnification or advancement of Expenses covered hereunder. The failure of Indemnitee to so notify the Company shall not relieve the Company of any obligation that it may have to the Indemnitee under this Agreement or otherwise; provided, however, that a delay in giving such notice shall not deprive Indemnitee of any right to be indemnified under this Agreement unless, and then only to the extent that, such delay is materially prejudicial to the defense of such claim.

Section 18. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if (a) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (b) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, (c) mailed by reputable overnight courier and receipted for by the party to whom said notice or other communication shall have been directed or (d) sent by facsimile transmission, with receipt of oral confirmation that such transmission has been received:

(i) if to Indemnitee, at the address indicated on the signature page of this Agreement, or such other address as Indemnitee shall provide to the Company; and

(ii) if to the Company to Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, IL 60093.

or to any other address as may have been furnished to Indemnitee by the Company or vice versa.

Section 19. Contribution. To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount

incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or
transaction(s).

Section 20. Applicable Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the Commonwealth of Virginia, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnitee pursuant to Section 11(a) of this Agreement, the Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Circuit Court for Henrico County, Commonwealth of Virginia (the “Virginia Court”), and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Virginia Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action or proceeding in the Virginia Court, and (iv) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Virginia Court has been brought in an improper or inconvenient forum.

Section 21. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

Section 22. Miscellaneous. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed as of the day and year first above written.

KRAFT FOODS INC.	INDEMNITEE
By: ______________________________	______________________________
Name:	Name:
Office:	Address:

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

	Years Ended December 31,				
	2008	2007	2006	2005	2004
		(2007 through 2004 restated)			
Earnings from continuing operations before income taxes	$ 2,577	$ 3,362	$ 3,644	$ 3,725	$ 3,584
Add / (Deduct):					
Equity in net earnings of less than 50% owned affiliates	(96)	(83)	(71)	(67)	(7)
Dividends from less than 50% owned affiliates	84	57	51	55	46
Fixed charges	1,426	836	708	777	820
Interest capitalized, net of amortization	(5)	(5)	(4)	(1)	(1)
Earnings available for fixed charges	$ 3,986	$ 4,167	$ 4,328	$ 4,489	$ 4,442
Fixed charges:					
Interest incurred:					
Interest expense	$ 1,281	$ 702	$ 578	$ 651	$ 677
Capitalized interest	6	10	8	3	2
	1,287	712	586	654	679
Portion of rent expense deemed to represent interest factor	139	124	122	123	141
Fixed charges	$ 1,426	$ 836	$ 708	$ 777	$ 820
Ratio of earnings to fixed charges	2.8	5.0	6.1	5.8	5.4

Exhibit 21.1

Company Name	State of Incorporation	Country of Incorporation
152999 Canada Inc.		Canada
3072440 Nova Scotia Company		Canada
AB Kraft Foods Lietuva		Lithuania
Abades B.V.		Netherlands
Aberdare Developments Limited		Virgin Islands (British)
Aberdare Two Developments Limited		Virgin Islands (British)
AGF Kanto, Inc.		Japan
AGF SP, Inc.		Japan
AGF Suzuka, Inc.		Japan
Ajinomoto General Foods, Inc.		Japan
Alimentos Especiales, Sociedad Anonima		Guatemala
Back to Nature Foods Company	Delaware	United States
Balance Bar Company	Delaware	United States
Bariatrix Products International Incorporated		Canada
Battery Properties, Inc.	Delaware	United States
Beijing Nabisco Food Company Ltd.		China
BIMO-Biscuiterie Industrielle du Moghreb SA		Morocco
Biscuit Brands (Kuan) Pte. Ltd.		Singapore
Biscuiterie de l'isle S.A.S.		France
Boca Foods Company	Delaware	United States
Branded Restaurant Group Inc.	Delaware	United States
Café GRAND'MERE S.A.S.		France
Callard & Bowser-Suchard, Inc.	Delaware	United States
Capri Sun, Inc.	Delaware	United States
Carlton Lebensmittelvertriebs GmbH		Germany
Churny Company, Inc.	Delaware	United States
Claussen Pickle Co.	Delaware	United States
Closed Joint Stock Company Kraft Foods Ukraine		Ukraine
Compania Venezolana de Conservas, C.A.		Venezuela
Confibel SPRL		Belgium
Continental Biscuits Ltd.		Pakistan
Corporativo Kraft, S. en N.C. de C.V.		Mexico
Cote d'Or Italia S.r.l.		Italy
Covenco Holding C.A.		Venezuela
El Gallito Industrial, S.A.		Costa Rica
Family Nutrition S.A.E.		Egypt
Fattorie Osella S.p.A.		Italy
Freezer Queen Foods (Canada) Limited		Canada
Freia AS		Norway
Fulmer Corporation Limited		Bahamas
Fundacion Terrabusi		Argentina
Gelco Gelatinas do Brasil Ltda		Brazil
General Biscuit Belgie BVBA		Belgium
General Biscuits Nederland B.V.		Netherlands
General Foods Pty. Ltd.		Australia
Generale Biscuit Egypt S.A.E.		Egypt
Generale Biscuit Glico France S.A.		France
Generale Biscuit SAS		France
Gernika B.V.		Netherlands
Grupo Gamesa, S.A. de C.V.		Mexico
Gyori Keksz Kft SARL		Hungary
Hervin Holdings, Inc.	Delaware	United States
Industria de Colores y Sabores S.A.		Columbia
Jacobs Suchard Cote d'Or Export SA		Belgium
Japan Beverage, Inc.		Japan
Johann Jacobs GmbH		Germany
K&S Alimentos S.A.		Brazil
KFI-USLLC I	Delaware	United States

Company Name	State of Incorporation	Country of Incorporation
KFI-USLLC IX	Delaware	United States
KFI-USLLC VII	Delaware	United States
KFI-USLLC VIII	Delaware	United States
KFI-USLLC XI	Delaware	United States
KFI-USLLC XIII	Delaware	United States
KFI-USLLC XIV	Delaware	United States
KFI-USLLC XVI	Delaware	United States
KJS India Private Limited		India
Knutsen Boyelaster II K/S		Norway
Kohrs Packing Company	Delaware	United States
KPC Foods, Inc.	Delaware	United States
Kraft Beverage (Tianjin) Co., Ltd.		China
Kraft Biscuits Iberia, S.L.		Spain
Kraft Biscuits Manufacturing Malaysia Sdn Bhd		Malaysia
Kraft Canada Inc.		Canada
Kraft Food Ingredients Corp.	Delaware	United States
Kraft Foods (Australia) Limited		Australia
Kraft Foods (Bahrain) W.L.L.		Bahrain
Kraft Foods (Beijing) Company Limited		China
Kraft Foods (China) Company Limited		China
Kraft Foods (Malaysia) Sdn Bhd		Malaysia
Kraft Foods (New Zealand) Limited		New Zealand
Kraft Foods (Puerto Rico), LLC	Puerto Rico	United States
Kraft Foods (Shanghai) Co., Ltd.		China
Kraft Foods (Suzhou) Co., Ltd.		China
Kraft Foods (Thailand) Limited		Thailand
Kraft Foods (Trinidad) Unlimited		Trinidad and Tobago
Kraft Foods Argentina S.A.		Argentina
Kraft Foods AS		Norway
Kraft Foods Asia Pacific Services Pte Ltd		Singapore
Kraft Foods Ausser-Haus Service GmbH		Germany
Kraft Foods Aviation, LLC	Wisconsin	United States
Kraft Foods Bakery Companies, Inc.	Delaware	United States
Kraft Foods Belgium Intellectual Property BVBA		Belgium
Kraft Foods Belgium Production BVBA		Belgium
Kraft Foods Belgium SPRL		Belgium
Kraft Foods Biscuit B.V.		Netherlands
Kraft Foods Bolivia S.A.		Bolivia
Kraft Foods Brasil S.A.		Brazil
Kraft Foods Bulgaria AD		Bulgaria
Kraft Foods Caribbean Sales Corp.	Delaware	United States
Kraft Foods Central & Eastern Europe Service BV		Netherlands
Kraft Foods Cesko Holdings B.V.		Netherlands
Kraft Foods Chile S.A.		Chile
Kraft Foods Colombia Ltda.		Colombia
Kraft Foods Colombia S.A.		Colombia
Kraft Foods Costa Rica, S.A.		Costa Rica
Kraft Foods CR s.r.o.		Czech Republic
KRAFT FOODS d.o.o. Belgrade		Serbia
Kraft Foods Danmark Aps		Denmark
Kraft Foods de Mexico, S. de R.L. de C.V.		Mexico
Kraft Foods de Nicaragua, S.A.		Nicaragua
Kraft Foods Deutschland GmbH		Germany
Kraft Foods Deutschland Holding GmbH		Germany
Kraft Foods Deutschland Intellectual Property GmbH & Co Kg		Germany
Kraft Foods Deutschland Production GmbH & Co Kg		Germany
Kraft Foods Deutschland Services GmbH & Co Kg		Germany

Company Name	State of Incorporation	Country of Incorporation
Kraft Foods Dominicana, S.A.		Dominican Republic
Kraft Foods Ecuador Cia. Ltda		Ecuador
Kraft Foods Eesti Osauhing		Estonia
Kraft Foods Egypt LLC		Egypt
Kraft Foods Egypt Trading LLC		Egypt
Kraft Foods El Salvador S.A. de C.V.		El Salvador
Kraft Foods Espana, S.L.U.		Spain
Kraft Foods Europe GmbH		Switzerland
Kraft Foods Europe Procurement GmbH		Switzerland
Kraft Foods Europe Services GmbH		Switzerland
Kraft Foods European Business Services Centre, S.L.U.		Spain
Kraft Foods European Business Services Centre, s.r.o.		Slovakia
Kraft Foods Finance Europe AG		Switzerland
Kraft Foods Financing Luxembourg S.a.r.l.		Luxembourg
Kraft Foods France Biscuit S.A.S.		France
Kraft Foods France SAS		France
Kraft Foods Galletas S.A.		Spain
Kraft Foods Global Brands LLC	Delaware	United States
Kraft Foods Global Brands, Inc.	Delaware	United States
Kraft Foods Global, Inc.	Delaware	United States
Kraft Foods Hellas Manufacturing S.A.		Greece
Kraft Foods Hellas S.A.		Greece
Kraft Foods Hellas Sales & Distribution S.A.		Greece
Kraft Foods Holding (Europa) GmbH		Switzerland
Kraft Foods Holdings Services, Inc.	Delaware	United States
Kraft Foods Holdings Singapore Pte. Ltd.		Singapore
Kraft Foods Holland Holding B.V.		Netherlands
Kraft Foods Honduras, S.A.		Honduras
Kraft Foods Hungaria Kft.		Hungary
Kraft Foods International (EU) Ltd.		United Kingdom
Kraft Foods International Beverages LLC	Delaware	United States
Kraft Foods International Eastern Europe, Middle East & Africa GmbH		Austria
Kraft Foods International Services LLC	Delaware	United States
Kraft Foods International, Inc.	Delaware	United States
Kraft Foods Ireland Limited		Ireland
Kraft Foods Italia Intellectual Property S.r.l.		Italy
Kraft Foods Italia Production S.r.l.		Italy
Kraft Foods Italia S.r.l.		Italy
Kraft Foods Italia Services S.r.l.		Italy
Kraft Foods Jamaica Limited		Jamaica
Kraft Foods Jaya (Malaysia) Sdn Bhd		Malaysia
Kraft Foods Jiangmen Co., Ltd.		China
Kraft Foods Kazakhstan LLP		Kazakhstan
Kraft Foods LA MB Holding B.V.		Netherlands
Kraft Foods LA MC B.V.		Netherlands
Kraft Foods LA NMB B.V.		Netherlands
Kraft Foods LA NVA B.V.		Netherlands
Kraft Foods LA VA Holding B.V.		Netherlands
Kraft Foods Latin America Holding LLC	Delaware	United States
Kraft Foods Laverune		France
Kraft Foods Limited		Australia
Kraft Foods Limited (Asia)		Hong Kong
Kraft Foods Luxembourg S.a.r.l.		Luxembourg
Kraft Foods Manufacturing Midwest, Inc.	Delaware	United States
Kraft Foods Manufacturing West, Inc.	Delaware	United States
Kraft Foods Maroc SA		Morocco
Kraft Foods Middle East &Africa FZE		United Arab Emirates

Company Name	State of Incorporation	Country of Incorporation
Kraft Foods Middle East & Africa Ltd.		United Kingdom
Kraft Foods Namur SPRL		Belgium
Kraft Foods Nederland B.V.		Netherlands
Kraft Foods Nederland Biscuit C.V.		Netherlands
Kraft Foods Nicaragua S.A.		Nicaragua
Kraft Foods Norge AS		Norway
Kraft Foods Norge Intellectual Property AS		Norway
Kraft Foods Norge Production AS		Norway
Kraft Foods Oesterreich GmbH		Austria
Kraft Foods Osterreich Production GmbH		Austria
Kraft Foods Packaging Polska Sp. z o.o.		Poland
Kraft Foods Panama, S.A.		Panama
Kraft Foods Peru S.A.		Peru
Kraft Foods Philippines, Inc.		Philippines
Kraft Foods Polska S.A.		Poland
Kraft Foods Portugal Iberia		Portugal
Kraft Foods Portugal Produtos Alimentares Lda.		Portugal
Kraft Foods Postres, S.A.		Spain
Kraft Foods Production Holdings BVBA		Belgium
Kraft Foods R & D, Inc.	Delaware	United States
Kraft Foods Romania SA		Romania
Kraft Foods Sales Co., Ltd.		China
Kraft Foods Schweiz GmbH		Switzerland
Kraft Foods Schweiz Holding GmbH		Switzerland
Kraft Foods Service S.A.S.		France
Kraft Foods Services South Africa (Pty) Ltd.		South Africa
Kraft Foods Singapore Pte Ltd		Singapore
Kraft Foods Slovakia Holdings B.V.		Netherlands
Kraft Foods Slovakia, a.s.		Slovakia
Kraft Foods South Africa (Pty) Ltd.		South Africa
Kraft Foods Strasbourg		France
Kraft Foods Sverige AB		Sweden
Kraft Foods Sverige Holding AB		Sweden
Kraft Foods Sverige Intellectual Property AB		Sweden
Kraft Foods Sverige Production AB		Sweden
Kraft Foods Taiwan Holdings LLC	Delaware	United States
Kraft Foods Taiwan Limited		Taiwan
Kraft Foods Trading Singapore Pte Ltd		Singapore
Kraft Foods UK Intellectual Property Limited		United Kingdon
Kraft Foods UK Ltd.		United Kingdom
Kraft Foods UK Production Limited		United Kingdom
Kraft Foods Uruguay S.A.		Uruguay
Kraft Foods Venezuela, C.A.		Venezuela
Kraft Foods World Travel Retail GmbH		Switzerland
Kraft Foods Zagreb d.o.o.		Croatia
Kraft Foods, trgovska druzba, d.o.o., Ljubljana		Slovenia
Kraft Gida Sanayi Ve Ticaret Anonim Sirketi		Turkey
Kraft Guangtong Food Company, Limited		China
Kraft Holding, S. de R.L. de C.V.		Mexico
Kraft Insurance (Ireland) Limited		Ireland
Kraft Jacobs Suchard (Australia) Pty. Ltd.		Australia
Kraft Jacobs Suchard la Vosgienne		France
Kraft Japan, K.K.		Japan
Kraft Malaysia Sdn Bhd		Malaysia
Kraft New Services, Inc.	Delaware	United States
Kraft Pizza Company	Delaware	United States
Kraft Reinsurance (Ireland) Limited		Ireland
Kraft Snacks Manufacturing Malaysia Sdn Bhd		Malaysia

Company Name	State of Incorporation	Country of Incorporation
Kraft Tian Mei Food (Tianjin) Co., Ltd.		China
Kraft, Inc.	Delaware	United States
Krema Limited		Ireland
KTL S. de R.L. de C.V.		Mexico
Kuan Enterprises Private Limited		Singapore
Lacta Alimentos Ltda		Brazil
Landers Centro Americana, Fabricantes de Molinos Marca “Corona”, S.A. de C.V.		Honduras
Lanes Biscuits Pty Ltd		Australia
Lanes Food (Australia) Pty Ltd		Australia
Lofanu Alimentos Ltda		Brazil
Lowney Inc.		Canada
LU Algerie SPA		Algeria
LU Antilles Guyane Caraibes SAS		France
LU France SAS		France
LU Ocean Indien SAS		France
LU Polska SA		Poland
LU Snack Foods GmbH		Germany
LU Suomi Oy		Finland
Marabou Belgium N.V.		Belgium
Merido Genussmittel GmbH		Germany
Merola Finance B.V.		Netherlands
Mirabell Salzburger Confiserie-und Bisquit GmbH		Austria
Nabisco Arabia Co. Ltd.		Saudi Arabia
Nabisco Caribbean Export, Inc	Delaware	United States
Nabisco Chongqing Food Company Ltd.		China
Nabisco Food (Suzhou) Co. Ltd.		China
Nabisco Holdings I B.V.		Netherlands
Nabisco Holdings II B.V.		Netherlands
Nabisco Iberia, SL		Spain
Nabisco International Limited	Nevada	United States
Nabisco International N.E./Africa L.L.C		United Arab Emirates
Nabisco Inversiones S.R.L.		Argentina
Nabisco Philippines, Inc.		Philippines
Nabisco Royal Argentina LLC	Delaware	United States
Nabisco Taiwan Corporation		Taiwan
NISA Holdings LLC	Delaware	United States
NSA Holdings, L.L.C.	Delaware	United States
OAO “UNITED BAKERS - Pskov”		Russian Federation
OAO Bolshevik		Russia
OMFC Service Company	Delaware	United States
ONKO Grossroesterei G.m.b.H.		Germany
OOO Kraft Foods Rus		Russian Federation
OOO Kraft Foods Sales & Marketing		Russian Federation
Opavia LU s.r.o.		Czech Republic
Opavia LU s.r.o.		Slovakia
Oy Kraft Foods Finland Ab		Finland
P.T. Kraft Ultrajaya Indonesia		Indonesia
P.T. Kraft Foods Company Indonesia		Indonesia
Perdue Trademark Subsidiary, Inc.	Delaware	United States
Phenix Leasing Corporation	Delaware	United States
Phenix Management Corporation	Delaware	United States
Pollio Italian Cheese Company	Delaware	United States
Productos Kraft, S. de R.L. de C.V.		Mexico
Produtos Alimenticios Pilar Ltda.		Brazil
PT Kraft Foods Indonesia		Indonesia
PT Kraft Indonesia		Indonesia
PT Kraft Symphoni Indonesia		Indonesia

Company Name	State of Incorporation	Country of Incorporation
Ritz Biscuit Company Limited		United Kingdom
Saiwa S.r.l.		Italy
Salvavidas S. de R.L. de C.V.		Mexico
San Dionisio Realty Corporation		Philippines
Selba Nederland BV		Netherlands
Servicios Integrales Kraft S de R. L. de C.V.		Mexico
Servicios Kraft, S. de R.L. de C.V.		Mexico
Seven Seas Foods, Inc.	Delaware	United States
Sheffield Investments, S.L.		Spain
SIA Kraft Food Latvija		Latvia
Societe Tunisienne de Biscuiterie SA		Tunisia
Symphony Biscuits Holdings Pte Ltd		Singapore
Taloca (Singapore) Pte Ltd.		Singapore
Taloca Cafe Ltda		Brazil
Taloca GmbH		Switzerland
Taloca y Cia Ltda.		Colombia
Tassimo Corporation	Delaware	United States
Tevalca Holding C.A.		Venezuela
The Hervin Company	Oregon	United States
The Kenco Coffee Company Limited		United Kingdom
The Knox Company	New Jersey	United States
The Yuban Coffee Company	Delaware	United States
UB Hong Kong Ltd.		Hong Kong
Uni-Foods Corporation		Japan
United Biscuits Snacks (Shenzhen) Ltd.		China
Vict. Th. Engwall & Co., Inc.	Delaware	United States
West Indies Yeast Company Limited		Jamaica
Yili-Nabisco Biscuit & Food Company Limited		China

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-67770, 333-86478, 333-101829, 333-113620, 333-141891 and 333-147829) and on Form S-8 (Nos. 333-71266, 333-84616, 333-125992, 333-133559 and 333-137021) of Kraft Foods Inc. of our reports dated February 19, 2009 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appear in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
February 27, 2009

EXHIBIT 31.1

Certifications

I, Irene B. Rosenfeld, certify that:

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

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

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2009

/s/ IRENE B. ROSENFELD

Irene B. Rosenfeld
Chairman and Chief Executive Officer

EXHIBIT 31.2

Certifications

I, Timothy R. McLevish, certify that:

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

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

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2009

/s/ TIMOTHY R. MCLEVISH

Timothy R. McLevish
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, Chairman and 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 Annual Report on Form 10-K for the period ended December 31, 2008, 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 Annual Report on Form 10-K 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
February 27, 2009

I, Timothy R. McLevish, Executive Vice President and 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 Annual Report on Form 10-K for the period ended December 31, 2008, 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 Annual Report on Form 10-K fairly presents in all material respects Kraft's financial condition and results of operations.

/s/ TIMOTHY R. MCLEVISH

Timothy R. McLevish
Executive Vice President and
Chief Financial Officer
February 27, 2009

A signed original of these written statements required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Kraft Foods Inc. and will be retained by Kraft Foods Inc. and furnished to the Securities and Exchange Commission or its staff upon request.