KRAFT FOODS INC
Form 10-K
February 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2011

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	**60093-2753**
(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 x 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 x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. x

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 x	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 x

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, 2011, was $62 billion. At January 31, 2012, there were 1,768,235,021 shares of the registrant s Class A Common Stock outstanding.

Documents Incorporated by Reference

Portions of the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its annual meeting of shareholders expected to be held on May 23, 2012 are incorporated by reference into Part III hereof.

Kraft Foods Inc.

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In this report, Kraft Foods, the Company, we, us and our refers to Kraft Foods Inc. and subsidiaries, and Common Stock refers to Kraft F
Class A common stock.

Forward-looking Statements

This report contains a number of forward-looking statements. Words, and variations of words, such as expect, goals, plans, believe, continue, may, will, and similar expressions are intended to identify our forward-looking statements, including but not limited to those related to our strategy, in particular, our proposed spin-off, expectations for the Global Snacks Business and expectations for the North American Grocery Business; new food law regulations; our employees and representative organizations; our properties; our legal proceedings, including environmental remediation actions; that our spin-off will be tax-free and is subject to conditions; our combination with Cadbury, including, synergies and cost savings; our accounting estimates; our pension plans and other employee benefit plans, including expected contributions, obligations, rates of return and costs; commodity costs; our liquidity, effects on our liquidity and funding sources; our capital expenditures and funding; our revolving credit facility; use of net proceeds of January 2012 notes; our long-term debt covenants and expected funding; effects of guarantees on our liquidity; our aggregate contractual obligations; our 2012 Outlook, including, organic net revenue growth and Operating EPS; and our risk management program, including the use of financial instruments for hedging activities.

These forward-looking statements are subject to a number of 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 in our forward-looking statements. Such factors include, but are not limited to, continued volatility of, and sharp increase in, commodity and other input costs, pricing actions, increased competition, our ability to differentiate our products from retailer brands, increased costs of sales, our indebtedness and our ability to pay our indebtedness, unexpected safety or manufacturing issues, regulatory or legal restrictions, 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, continued consumer weakness, weakness in economic conditions, performance in developing markets and tax law changes. We disclaim and do not undertake any obligation to update or revise any forward-looking statement in this report.

PART I

Item 1. Business.

General

Kraft Foods is the world s second largest food company with revenues of $54.4 billion and earnings from continuing operations before income taxes of $4.8 billion in 2011. Kraft Foods was incorporated in 2000 in the Commonwealth of Virginia. We have approximately 126,000 employees worldwide, and we manufacture and market packaged food products, including biscuits, confectionery, beverages, cheese, convenient meals and various packaged grocery products. We sell our products to consumers in approximately 170 countries. At December 31, 2011, we had operations in more than 80 countries and made our products at 220 manufacturing and processing facilities worldwide. At December 31, 2011, we had net assets of $35.3 billion and gross assets of $93.8 billion. We are a member of the Dow Jones Industrial Average, Standard & Poor s 500, the Dow Jones Sustainability Index and the Ethibel Sustainability Index.

At December 31, 2011, our portfolio included twelve brands with annual revenues exceeding $1 billion each: *Oreo*, *Nabisco* and *LU* biscuits; *Milka* and *Cadbury* chocolates; *Trident* gum; *Jacobs* and *Maxwell House* coffees; *Philadelphia* cream cheeses; *Kraft* cheeses, dinners and dressings; *Oscar Mayer* meats; and *Tang* powdered beverage. Our portfolio included approximately 80 brands which each generate annual revenues of more than $100 million.

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

Reportable Segments

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

As further discussed in Note 16, *Segment Reporting,* to the consolidated financial statements, we use segment operating income to evaluate segment performance and to allocate resources. We believe this measure is most relevant to investors in order to analyze segment results and trends. Segment operating income excludes unrealized gains and losses on hedging activities (which are a component of cost of sales), certain components of our U.S. pension plan cost (which is a component of cost of sales and selling, general and administrative expenses), general corporate expenses (which are a component of selling, general and administrative expenses) and amortization of intangibles.

1

During the last three fiscal years, our reportable segments contributed to total segment operating income as reflected below. See Note 16, *Segment Reporting,* for total assets and net revenues by segment.

	00,000,000	00,000,000	00,000,000
	For the Years Ended December 31,		
	2011	2010	2009
Kraft Foods North America:			
U.S. Beverages	5.9%	8.4%	9.3%
U.S. Cheese	8.3%	8.9%	12.2%
U.S. Convenient Meals	4.2%	4.0%	4.3%
U.S. Grocery	16.3%	17.3%	21.0%
U.S. Snacks	11.1%	12.6%	13.2%
Canada & N.A. Foodservice	8.9%	8.7%	8.5%
Kraft Foods Europe	18.4%	16.6%	14.4%
Kraft Foods Developing Markets	26.9%	23.5%	17.1%
Total Segment Operating Income	100.0%	100.0%	100.0%

Our brands span six consumer sectors:

Biscuits primarily cookies, crackers and salted snacks
Confectionery primarily chocolate, gum and candy
Beverages primarily coffee, packaged juice drinks and powdered beverages
Cheese primarily natural, processed and cream cheeses
Grocery primarily spoonable and pourable dressings, condiments and desserts
Convenient Meals primarily processed meats and lunch combinations

During 2011, our reportable segments participated in these six consumer sectors as follows:

	Percentage of 2011 Net Revenues by Consumer Sector (1)						
Segment	Biscuits	Confec-tionery	Beverages	Cheese	Grocery	Convenient Meals	Total
Kraft Foods North America:							
U.S. Beverages			31.1%				5.5%
U.S. Cheese				49.4%			7.0%
U.S. Convenient Meals						62.8%	6.1%
U.S. Grocery		1.0%			52.9%	22.5%	6.6%
U.S. Snacks	42.8%	6.9%		0.8%	1.1%		11.6%
Canada & N.A. Foodservice	7.5%	4.5%	6.1%	21.6%	22.0%	7.2%	9.5%
Total Kraft Foods North America	50.3%	12.4%	37.2%	71.8%	76.0%	92.5%	46.3%
Kraft Foods Europe	21.7%	37.4%	32.6%	15.3%	8.7%	5.1%	24.6%
Kraft Foods Developing Markets	28.0%	50.2%	30.2%	12.9%	15.3%	2.4%	29.1%
Total Kraft Foods	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Consumer Sector Percentage of Total Kraft Foods	22.1%	28.5%	17.8%	14.2%	7.7%	9.7%	100.0%

(1) Percentages were calculated based on U.S. dollars rounded to millions.

Products which contributed 10% or more to consolidated net revenues for the years ended December 31, were:

	00,000,000 **2011**	00,000,000 **2010**	00,000,000 **2009**
Biscuits (cookies and crackers)	19%	19%	23%
Chocolate	18%	17%	11%
Cheese	14%	14%	18%
Coffee	11%	11%	13%
Gum & Candy	10%	10%	

Our major brands within each reportable segment and consumer sector at December 31, 2011 were:

Kraft Foods North America:

U.S. Beverages

Beverages: *Maxwell House, Gevalia, Maxwell House International* and *Yuban* coffees; *Tassimo* hot beverage system; *Capri Sun* (under license) and *Kool-Aid* packaged juice drinks; *Kool-Aid, Crystal Light, Tang* and *Country Time* powdered beverages; and *MiO* liquid concentrate.

U.S. Cheese

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

U.S. Convenient Meals

Convenient Meals: *Oscar Mayer* cold cuts, hot dogs and bacon; *Lunchables* lunch combinations; *Boca* soy-based meat alternatives; and *Claussen* pickles.

U.S. Grocery

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

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

U.S. Snacks

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

Confectionery: *Toblerone, Trident, Halls, Stride, Dentyne, Sour Patch Kids, Swedish Fish, Maynards, Bubbas, Chiclets, Milka* bars, and *Clorets*.

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

Kraft Foods Europe:

Biscuits: *Oreo, Digestive, Tuc, Mikado* (under license), *Ourson, Petit Déjeuner, Cracotte, Belin, Heudebert, Grany, Petit Écolier, Oro, Fonzies, Prince/Principe, Belvita, LU, Pepito, Vitalinea* (under license)*, Milka, Cote d Or, Chips Ahoy!, Liga, Ritz, Fontaneda, Cipster, PiM s, Granola, Napolitain, Paille D Or,* and *Pelletier* biscuits.

Confectionery:	*Milka, Marabou, Cote D Or, Toblerone, Freia, Suchard, Lacta, Pavlides, Mirabell, Terry s, Daim / Dime, Twist, Cadbury Dairy Milk, Roses, Creme Egg, Twirl, Flake, Crunchie, Heroes / Favourites, Wispa, Mini Eggs, Green and Black s, Buttons, Milk Tray, Double Decker, Moro / Boost, Timeout, Trident, Hollywood, Stimorol, Halls, Bassetts, Maynards, Trebor, Carambar, Poulain, La Pie Qui Chante, V6, TNCC, Cadbury Eclairs, Malabar, Bubbas, Bubblicious,* and *La Vosgienne.*
Beverages:	*Jacobs, Gevalia, Carte Noire, Jacques Vabre, Kaffee HAG, Grand Mère, Kenco, Saimaza, Maxwell House, Onko,* and *Splendid* coffees; *Tassimo* hot beverage system; and *Suchard Express, O Boy* and *Cadbury* chocolate drinks.
Cheese:	*Dairylea, Sottilette, Osella* and *El Caserío* cheeses; and *Philadelphia* cream cheese.
Grocery:	*Kraft* pourable and spoonable salad dressings; *Miracel Whip* spoonable dressings; *Royal* dry packaged desserts; and *Mirácoli* sauces.
Convenient Meals:	*Lunchables* lunch combinations; *Mirácoli* pasta dinners and sauces; and *Simmenthal* canned meats.

Kraft Foods Developing Markets:

Biscuits:	*Oreo, Chips Ahoy!, Ritz, Club Social, Express, Kraker Bran, Honey Bran, Aveny Bran, Marbu, Variedad, Pacific, Belvita, Cerealitas, Lucky*, *Trakinas, Tuc, Mikado* (under license)*, Ourson, Petit Déjeuner, Cracotte, Bolshevik, Prichuda, Jubilee, Major, Merendina, Jacob s, Chipsmore, Biskuat / Tiger, Milka, Hi Calcium Soda, Pépito, PiM s/Delicje, LU, Barny / Gyoeri Edes, Prince/Principe, Utrenne/Jo Regge, U Guan, Premium, San, Jai Gai* and *Newtons* biscuits; and *Estrella*, *Twisties*, *Cheezels*, *Chachos*, *Kar*, *Lux* and *Planters* nuts and salted snacks.
Confectionery:	*Milka*, *Toblerone*, *Lacta*, *Côte d Or*, *Terrabusi*, *Kent, Kan, Alpen Gold*, *Korona*, *Poiana, Svoge, Vozdushny*, *Figaro, Prince Polo / Siesta, Sport / Smash / Jazz / Moreni, Cadbury Dairy Milk, Picnic, 5 Star, Cadbury Heroes / Favourites, Flake, Crunchie, Perk, Old Gold, Freddo, Cherry Ripe, Moro / Boost, Roses, Trident, Halls, Clorets, Bubbas, Dirol, Chiclets, Eclairs, Beldent, Dentyne, Recaldent, Xylicrystal, Falim, TNCC, Tom Tom, Bournville, 3-Bit, Pascall, Chappies, First, Stride, Stimorol*
Beverages:	*Tang, Bournvita, Clight, Kool-Aid, Fresh, Frisco, Cadbury* and *Capri Sun* beverages; *Jacobs, Maxwell House* and *Carte Noire* coffees.
Cheese:	*Kraft, Velveeta* and *Eden* processed cheeses; *Philadelphia* cream cheese; *Kraft* natural cheese; and *Cheez Whiz* processed 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; *Velveeta* boxed dinners; *Lunchables* lunch combinations; and *Oscar Mayer* cold cuts.

Proposed Spin-Off Transaction

On August 4, 2011, we announced that our Board of Directors intends to create two independent public companies: (i) a global snacks business (the Global Snacks Business) and (ii) a North American grocery business (the North American Grocery Business). The Global Snacks Business will consist of our current Kraft Foods Europe and Developing Markets segments as well as our North American snack and confectionery businesses. The North American Grocery Business will primarily consist of our current U.S. Beverages, Cheese, Convenient Meals and Grocery segments, grocery related categories in our Canada & N.A. Foodservice segment as well as the *Planters* and *Corn Nuts* brands and businesses. We expect to create these companies through a U.S. tax-free spin-off of the North American Grocery Business to our shareholders.

The transaction is subject to a number of conditions, including the receipt of regulatory approvals, a favorable ruling from the Internal Revenue Service to ensure the U.S. tax-free status of the spin-off, execution of intercompany agreements, further diligence as appropriate and final approval from our Board of Directors. While our current target is to complete the spin-off before year-end 2012, we cannot assure that the spin-off will be completed on the anticipated timeline or that the terms of the spin-off will not change. See Item 1A. Risk Factors for certain risk factors relating to the proposed spin-off transaction.

Significant Acquisitions and Divestitures

Cadbury Acquisition:

On February 2, 2010, we acquired 71.73% of Cadbury Limited (Cadbury) and as of June 1, 2010, we owned 100% of all outstanding Cadbury shares. The Cadbury acquisition was valued at $18,547 million, or $17,503 million net of cash and cash equivalents. We incurred transaction related fees of $218 million in 2010 and $40 million in 2009, which we recorded in selling, general and administrative expense. We also incurred acquisition financing fees of $96 million in 2010, which were recorded in interest and other expenses, net. As a condition of our acquisition, the EU Commission required that we divest certain Cadbury confectionery operations in Poland and Romania. The divestitures were completed in the third quarter of 2010 and generated $342 million of sale proceeds. The impact of these divestitures was reflected as adjustments within the Cadbury final purchase accounting. During 2010, Cadbury contributed net revenues of $9,143 million and net earnings of $530 million from February 2, 2010 through December 31, 2010. We acquired Cadbury to create a global snacks powerhouse and an unrivaled portfolio of brands people love.

Pizza Divestiture:

On March 1, 2010, we completed the sale of the assets of our North American frozen pizza business (Frozen Pizza) to Nestlé USA, Inc. (Nestlé) for $3.7 billion. The Frozen Pizza business was a component of our U.S. Convenient Meals and Canada & N.A. Foodservice segments. The sale included the *DiGiorno*, *Tombstone* and *Jack s* brands in the U.S., the *Delissio* brand in Canada and the *California Pizza Kitchen* trademark license. It also included two Wisconsin manufacturing facilities (Medford and Little Chute) and the leases for the pizza depots and delivery trucks. Approximately 3,600 of our employees transferred with the business to Nestlé. As a result of the divestiture, we recorded a gain on discontinued operations of $1,596 million, or $0.92 per diluted share, in 2010.

See Note 3, *Acquisitions and Divestitures*, to our consolidated financial statements for additional information on these transactions.

Customers

Our five largest customers accounted for approximately 21% of our net revenues in 2011 compared with 23% in 2010 and 27% in 2009. Our ten largest customers accounted for approximately 29% of our net revenues in 2011 compared with 31% in 2010 and 36% in 2009. Our largest customer, Wal-Mart Stores, Inc., accounted for approximately 12% of our net revenues in 2011 compared with 13% in 2010 and 16% in 2009.

Seasonality

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

Competition

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

Distribution and Marketing

Our products are generally sold to supermarket chains, wholesalers, supercenters, club stores, mass merchandisers, distributors, convenience stores, gasoline stations, drug stores, value stores and other retail food outlets. In general, the retail trade for food products is consolidating. We distribute our products through distribution centers, satellite warehouses, company-operated and public cold-storage facilities, depots and other facilities. We use a combination of warehouse delivery and direct store delivery and use services of independent sales offices and agents primarily in some of our international locations.

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

Raw Materials and Packaging

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

Significant cost items in chocolate confectionery products are cocoa and sugar. We purchase cocoa and sugar on world markets, and their prices are affected by the quality and availability of supply and changes in the value of the pound sterling and the U.S. dollar relative to certain other currencies. Cocoa bean, cocoa butter and sugar costs on average were higher in 2011 than in 2010. 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 products are substantially influenced by market supply and demand, as well as by government programs. Dairy commodity costs on average were higher in 2011 than in 2010. The most significant cost item in coffee products is green coffee beans, which we purchase 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 2011 than in 2010. Significant cost items in our biscuit and grocery products are grains (wheat, corn and soybean oil). Grain costs have experienced significant volatility and have increased from 2010 to 2011 due largely to burgeoning global demand for food, livestock feed and biofuels such as ethanol and biodiesel.

During 2011, our aggregate commodity costs increased primarily as a result of higher costs of coffee, dairy, grains and oils, packaging materials, other raw materials, meat and nuts. Our commodity costs increased approximately $2.6 billion in 2011 and approximately $1.0 billion in 2010 compared to the prior year. We expect the higher cost environment and commodity cost volatility to continue in 2012.

The prices for raw materials and agricultural materials used in our products are affected by external factors such as weather conditions, commodity market conditions, currency fluctuations and the effects of governmental agricultural programs. 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. While the prices of our principal raw materials can be expected to fluctuate, we believe there will continue to be an adequate supply of the raw materials we use and that they will generally remain available from numerous sources.

Intellectual Property

Our trademarks are 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 products under brands we license from third parties, including at December 31, 2011:

- *Capri Sun* packaged juice drinks for sale in the U.S. and Canada; and
- *Taco Bell Home Originals* Mexican style food products for sale in U.S. grocery stores.

We also own numerous patents worldwide. We consider our portfolio of patents, patent applications, patents licenses under patents owned by third parties, proprietary trade secrets, technology, know how processes and related intellectual property rights to be of material importance to our operations. 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 for 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.

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 3,300 food scientists, chemists and engineers working primarily in 15 key technology centers: East Hanover, New Jersey; Glenview, Illinois; Madison, Wisconsin; Tarrytown, New York; Whippany, New Jersey; Banbury, United Kingdom; Bournville, United Kingdom; Curitiba, Brazil; Eysins, Switzerland; Paris, France; Melbourne, Australia; Mexico City, Mexico; Munich, Germany; Reading, United Kingdom; and Suzhou, China. These technology centers are equipped with pilot plants and state-of-the-art instruments. Research and development expense was $702 million in 2011, $583 million in 2010, and $466 million in 2009.

Regulation

Our U.S. food products and packaging materials are primarily regulated by the U.S. Food and Drug Administration (FDA) or, for products containing meat and poultry, the U.S. Food Safety and Inspection Service of the U.S. Department of Agriculture. These agencies enact and enforce regulations relating to the manufacturing, distribution and labeling of food products. We supported the Food Safety Modernization Act, a 2011 law that provided additional food safety authority to the FDA. We do not expect the cost of complying with that law, and implementing regulations expected over the next two to three years, to be material.

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

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

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

Environmental Regulation

We are subject to various laws and regulations in and outside of the U.S. relating to the protection of the environment. 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 (the environmental program established in the Comprehensive Environmental Response, Compensation, and Liability Act to address abandoned hazardous waste sites), which imposes joint and severable liability on each potentially responsible party. At December 31, 2011, our subsidiaries were involved in 68 active actions in the U.S. under the Superfund legislation (and other similar actions and legislation) related to our current operations and certain former or divested operations for which we retain liability.

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

As of December 31, 2011, we accrued an immaterial amount for environmental remediation. 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. See Note 1*, Summary of Significant Accounting Policies,* for additional information on our environmental remediation programs.

Employees

At December 31, 2011, we employed approximately 126,000 people worldwide. Labor unions represent approximately 27% of our 36,000 U.S. employees. Most of the unionized workers at our U.S. locations are represented under contracts with the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union; the United Food and Commercial Workers International Union; and the International Brotherhood of Teamsters. These contracts expire at various times throughout the next several years. Outside the U.S., labor unions or workers councils represent approximately 58% of our 90,000 employees. Our business units are subject to various laws and regulations relating to their relationships with their employees. These laws and regulations are specific to the location of each business unit. In addition, in accordance with European Union requirements, we have established a European Works Council composed of management and elected members of our workforce. We believe that our relationships with employees and their representative organizations are generally good.

Foreign Operations

We sell our products to consumers in approximately 170 countries. At December 31, 2011, we had operations in more than 80 countries and made our products at 220 manufacturing and processing facilities worldwide. We generated approximately 60% of our 2011 net revenues, 57% of our 2010 net revenues and 49% of our 2009 net revenues outside the U.S. Refer to Note 16, *Segment Reporting,* for additional information on our foreign operations. Also, for a discussion of risks attendant to our foreign operations, see Risk Factors in Item 1A.

Executive Officers of the Registrant

The following are our executive officers as of February 27, 2012:

Name	Age	Title
Irene B. Rosenfeld	58	Chairman and Chief Executive Officer
David A. Brearton	51	Executive Vice President and Chief Financial Officer
John T. Cahill	54	Executive Chairman Designate, North American Grocery
Timothy P. Cofer	43	Executive Vice President and President, Kraft Foods Europe
Marc S. Firestone	52	Executive Vice President, Corporate and Legal Affairs and General Counsel
Sanjay Khosla	60	Executive Vice President and President, Developing Markets
Karen J. May	53	Executive Vice President, Global Human Resources
Timothy R. McLevish	56	Executive Vice President
Daniel P. Myers	56	Executive Vice President, Supply Chain
Sam B. Rovit	54	Executive Vice President, Strategy
Jean E. Spence	54	Executive Vice President, Research, Development and Quality
W. Anthony Vernon	56	Executive Vice President and President, Kraft Foods North America
Mary Beth West	49	Executive Vice President and Chief Category and Marketing Officer

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

Mr. Brearton was appointed Executive Vice President and Chief Financial Officer effective May 9, 2011. Prior to that, he served as Executive Vice President, Operations and Business Services from January 2008 to May 2011, Executive Vice President, Global Business Services and Strategy from April 2006 to December 2007 and Senior Vice President of Business Process Simplification and Corporate Controller from February 2005 to April 2006. He previously served as Senior Vice President, Finance for Kraft Foods International. Mr. Brearton joined Kraft Foods in 1984. Mr. Brearton also serves on the Board of Directors of Feeding America.

Mr. Cahill was designated Executive Chairman North American Grocery effective January 2, 2012. Prior to that, he served as an Industrial Partner at Ripplewood Holdings LLC, a private equity firm, from 2008 to 2011. Mr. Cahill spent nine years with The Pepsi Bottling Group, Inc., a beverage manufacturing company, most recently as Chairman and Chief Executive Officer from 2003 to 2006 and Executive Chairman until 2007. Mr. Cahill previously spent nine years with PepsiCo, Inc., a food and beverage company, in a variety of leadership positions. Mr. Cahill also serves on the Boards of Directors of Colgate-Palmolive Company and Legg Mason, Inc.

Mr. Cofer was appointed Executive Vice President and President, Kraft Foods Europe effective August 15, 2011. Prior to that, he served as Senior Vice President, Global Chocolate Category from June 2010 to August 2011, Senior Vice President, Strategy and Integration from January 2010 to June 2010, President of Pizza from January 2008 to January 2010, and Senior Vice President and General Manager of Oscar Mayer from January 2007 to January 2008. He served as Vice President and General Manager of EU Chocolate from June 2003 to January 2007. Mr. Cofer joined Kraft Foods in 1992.

Mr. Firestone was appointed Executive Vice President, Corporate and Legal Affairs and General Counsel in October 2006. He previously served as Kraft Foods Executive Vice President, General Counsel and Corporate Secretary from November 2003 to October 2006. Prior to joining Kraft Foods in 2003, Mr. Firestone served as Senior Vice President and General Counsel of Philip Morris International, a tobacco company. Mr. Firestone also serves on the Board of Directors of Unilife Corporation. On February 16, 2012, we announced that Mr. Firestone will be leaving the Company in early 2012.

Mr. Khosla was appointed Executive Vice President and President, Developing Markets effective August 1, 2010. Prior to that, he served as Executive Vice President and President, Kraft Foods International from January 2007 to July 2010. Before joining Kraft Foods, he served as the Managing Director of Fonterra Brands, a dairy company, from 2004 to 2006. Previously, Mr. Khosla spent 27 years with Unilever N.V., a consumer products company, in India, London and Europe. Mr. Khosla also serves on the Boards of Directors of Best Buy Co., Inc. and NIIT Ltd. and is a trustee of the Goodman Theater Company in Chicago.

Ms. May was appointed Executive Vice President, Global Human Resources in October 2005. Prior to that, she was 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 has served as Executive Vice President since August 15, 2011, planning for the proposed separation of Kraft Foods into two independent companies. Prior to that, he served as Executive Vice President and Chief Financial Officer from October 2007 to May 2011. He previously served as 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. Myers joined Kraft Foods as Executive Vice President, Supply Chain in September 2011. Prior to that, he worked for Procter & Gamble, a consumer products company, for 33 years, in a variety of leadership positions, most recently serving as Vice President, Product Supply for P&G s Global Hair Care business from September 2007 to August 2011. Mr. Myers also serves on the Advisory Board of the University of Tennessee s Supply Chain Institute.

Mr. Rovit was appointed Executive Vice President, Strategy effective February 1, 2011. Prior to joining Kraft Foods, he served as a Director of Bain & Co., a management consulting firm, from January 2008 to January 2011 and from 1988 to June 2005. Mr. Rovit served as President, Chief Executive Officer and Director of Swift & Company, a meat processing company, from June 2005 to July 2007.

Ms. Spence was appointed Executive Vice President, Research, Development and Quality in January 2004. Prior to that, Ms. Spence served as Senior Vice President, Research and Development, Kraft Foods North America from August 2003 to January 2004 and Senior Vice President of Worldwide Quality, Scientific Affairs and Compliance for Kraft Foods North America from November 2001 to August 2003. She joined Kraft Foods in 1981. Ms. Spence also serves as a Trustee of Clarkson University and on the Supervisory Board of GEA Group AG.

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

Ms. West was appointed Executive Vice President and Chief Category and Marketing Officer effective August 1, 2010. Previously, she served as Executive Vice President and Chief Marketing Officer from October 2007 to July 2010 and as Group Vice President for Kraft Foods and President of the North America Beverages Sector from 2005 to October 2007. Ms. West joined Kraft Foods in 1986. Ms. West also serves on the Board of Directors of J.C. Penney Co., Inc. and is a member of the Executive Leadership Council.

We adopted the Kraft Foods Code of Conduct, 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 Web site 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 Web site at www.kraftfoodscompany.com.

In addition, we adopted Corporate Governance Guidelines, charters for each of the Board s four standing committees and the Code of Business Conduct and Ethics for Directors. All of these materials are available on our Web site 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.

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 Web site is not, and shall not be deemed to be, a part of this Annual Report on Form 10-K or incorporated into any other filings we make with the SEC.

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

Item 1A. Risk Factors.

You should read the following risk factors carefully in connection with evaluating our business and the forward looking information contained in this Annual Report on Form 10-K. Any of the following risks could materially and 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.

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

We may need to reduce our prices in response to competitive and customer pressures. Competition and customer pressures may also restrict our ability to increase prices in response to commodity and other cost increases. We may also need to increase or reallocate spending on marketing, advertising and new product innovation to protect or increase market share. These expenditures are subject to risks, including uncertainties about trade and consumer acceptance of our efforts. If we reduce prices or increase costs, but we cannot increase sales volumes to offset those changes, then our financial condition and results of operations will suffer.

Maintaining our reputation and brand image is essential to our business success.

We have many iconic brands with worldwide recognition. Our success depends on our ability to maintain brand image for our existing products, extend our brands to new platforms and expand our brand image with new product offerings.

We seek to maintain, extend and expand our brand image through marketing investments, including advertising and consumer promotions, and product innovation. Continuing global focus on health and wellness, including weight management, and increasing media attention to the role of food marketing could adversely affect our brand image or lead to stricter regulations and greater scrutiny of food marketing practices. Increased legal or regulatory restrictions on our advertising, consumer promotions and marketing, or our response to those restrictions, could limit our efforts to maintain, extend and expand our brands. Moreover, adverse publicity about regulatory or legal action against us could damage our reputation and brand image, undermine our customers confidence and reduce long-term demand for our products, even if the regulatory or legal action is unfounded or not material to our operations.

In addition, our success in maintaining, extending and expanding our brand image depends on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and online dissemination of advertising campaigns. We are subject to a variety of legal and regulatory restrictions on how and to whom we market our products, for instance marketing to children. These restrictions may limit our ability to maintain, extend and expand our brand image as the media and communications environment continues to evolve. Negative posts or comments about us on social networking web sites could seriously damage our reputation and brand image. If we do not maintain, extend and expand our brand image, then our product sales, financial condition and results of operations could be materially and adversely affected.

We must leverage our value proposition to compete against retailer brands and other economy brands.

Retailers are increasingly offering retailer and other economy brands that compete with some of our products. Our products must provide higher value and/or quality to our consumers than less expensive alternatives, particularly during periods of economic uncertainty such as those we continue to experience. Consumers may not buy our products if the difference in value or quality between our products and retailer or other economy brands narrows or if consumers perceive a narrowing. If consumers prefer retailer or other economy brands, then we could lose market share or sales volumes or shift our product mix to lower margin offerings. The impact could materially and adversely affect our financial condition and results of operations.

The consolidation of retail customers could adversely affect us.

Retail customers, such as supermarkets, warehouse clubs and food distributors in the U.S., the European Union and our other major markets, continue to consolidate, resulting in fewer customers on which we can rely for business. Consolidation also produces large, more sophisticated retail customers that can resist price increases and demand lower pricing, increased promotional programs or specifically tailored products. In addition, larger retailers have the scale to develop supply chains that permit them to operate with reduced inventories or to develop and market their own retailer brands. Further retail consolidation and increasing retail power could materially and adversely affect our product sales, financial condition and results of operations.

Retail consolidation also increases the risk that adverse changes in our customers business operations or financial performance will have a corresponding material adverse effect on us. For example, if our customers cannot access sufficient funds or financing, then they may delay, decrease or cancel purchases of our products, or delay or fail to pay us for previous purchases.

Changes in our relationships with significant customers or suppliers could adversely affect us.

During 2011, our five largest customers accounted for approximately 21% of our net revenues with our largest customer Wal-Mart Stores, Inc., accounting for approximately 12% of our net revenues. There can be no assurance that all significant customers will continue to purchase our products in the same quantities or on the same terms as in the past, particularly as increasingly powerful retailers continue to demand lower pricing and develop their own brands. The loss of a significant customer or a material reduction in sales to a significant customer could materially and adversely affect our product sales, financial condition and results of operations.

Disputes with significant suppliers, including regarding pricing or performance, could adversely affect our ability to supply products to our customers and could materially and adversely affect our product sales, financial condition and results of operations.

Commodity and other input prices are volatile and may rise significantly.

We purchase large quantities of commodities, including dairy, coffee beans, cocoa, wheat, corn products, soybean and vegetable oils, nuts, meat products, and sugar and other sweeteners. In addition, we purchase and use significant quantities of plastic, glass and cardboard to package our products, and natural gas to operate our factories and warehouses. Prices for commodities, other supplies and energy are volatile and can fluctuate due to conditions that are difficult to predict, including global competition for resources, currency fluctuations, severe weather, consumer or industrial demand and changes in governmental trade, alternative energy and agricultural programs. In addition, speculative trading often exacerbates price volatility. For 2011, our commodity costs were approximately $2.6 billion higher than for 2010. Although we monitor our exposure to commodity prices as an integral part of our overall risk management program, and seek to hedge against input price increases, continued volatility in the prices of commodities and other supplies we purchase could increase the costs of our products, and our profitability could suffer. Moreover, increases in the price of our products to cover these increased costs may result in lower sales volumes. If we are not successful in our hedging activities, or if we are unable to price to cover increased costs, then commodity and other input price volatility or increases could materially and adversely affect our financial condition and results of operations.

The proposed spin-off may not be completed on the terms or timeline currently contemplated, if at all.

In August 2011, we announced our intention to become two independent publicly traded companies through a U.S. tax-free spin-off of our North American Grocery Business to existing shareholders. Unanticipated developments could delay, prevent or otherwise adversely affect the proposed spin-off of the North American Grocery Business, including possible problems or delays in obtaining various regulatory and tax approvals or clearances and disruptions in the capital and other financial markets, among other things. In addition, consummation of the proposed spin-off will require final approval from our Board of Directors. Therefore, we cannot assure that we will be able to complete the spin-off on the terms or on the timeline that we announced, if at all.

In order to position ourselves for the proposed spin-off, we are actively pursuing strategic, structural and process realignment and restructuring actions within our North American operations. These actions could lead to disruption of our operations, loss of, or inability to recruit, key personnel needed to operate and grow our businesses and complete the proposed spin-off, weakening of our internal standards, controls or procedures, and impairment of our relationship with key customers and suppliers. We have and will continue to incur significant expenses in connection with the proposed spin-off. In addition, completion of the proposed spin-off will require significant amounts of our management s time and effort which may divert management s attention from operating and growing our businesses and could adversely affect our business, results of operations or financial condition.

If the spin-off is completed, it may not achieve the intended results.

If the proposed spin-off is completed, our operational and financial profile will change upon the separation of the North American Grocery Business from our other businesses. As a result, our diversification of revenue sources will diminish, and our results of operations, cash flows, working capital and financing requirements may be subject to increased volatility. Further, shares of our Common Stock will represent an investment in a smaller company with its business concentrated in the global snacks business. These changes may not meet some shareholders investment strategies, which could cause investors to sell their shares of our Common Stock. Excessive selling could cause the relative market price of our Common Stock to decrease following the consummation of the proposed spin-off.

In addition, if the proposed spin-off is completed, as the Global Snacks Business our business in North America will be greatly reduced and a significantly greater proportion of our revenues will be derived from non-U.S. operations. Accordingly, the risks discussed below and elsewhere in this annual report that are associated with operating a global business could increase if the proposed spin-off is completed.

Changes in regulations could increase our costs and affect our profitability.

Our activities in the United States and around the world are highly regulated and subject to government oversight. Various federal, state, provincial and local laws and regulations govern food production and marketing, as well as licensing, trade, tax and environmental matters. Governing bodies regularly issue new regulations and changes to existing regulations. Our need to comply with new or revised regulations or their interpretation and application, including proposed requirements designed to enhance food safety or to regulate imported ingredients, could materially and adversely affect our product sales, financial condition and results of operations.

Legal claims or other regulatory enforcement actions could subject us to civil and criminal penalties that affect our product sales, reputation and profitability.

We are a large food company operating in a highly regulated environment and a constantly evolving legal and regulatory framework around the world. Consequently, we are subject to heightened risk of legal claims or other regulatory enforcement actions. Although we have implemented policies and procedures designed to ensure compliance with existing laws and regulations, there can be no assurance that our employees, contractors or agents will not violate our policies and procedures. Moreover, the failure to maintain effective control environment processes could lead to violations, unintentional or otherwise, of laws and regulations. Legal claims or regulatory enforcement actions arising out of our failure or alleged failure to comply with applicable laws and regulations could subject us to civil and criminal penalties that could materially and adversely affect our product sales, reputation, financial condition and results of operations.

Product recalls or other product liability claims could materially and adversely affect us.

Selling products for human consumption involves inherent risks. We could decide to, or be required to recall products due to suspected or confirmed product contamination, spoilage or other adulteration, product misbranding or product tampering. Any of these events could materially and adversely affect our product sales, reputation, financial condition and results of operations.

We may also suffer losses if our products or operations violate applicable laws or regulations, or if our products cause injury, illness or death. In addition, our marketing could face claims of false or deceptive advertising or other criticism. A significant product liability or other legal judgment or a related regulatory enforcement action against us, or a widespread product recall, may materially and adversely affect our reputation and 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 materially and adversely affect our product sales, financial condition and results of operations.

We are subject to risks generally associated with companies that operate in a global environment, which could affect our growth and financial performance.

We generated approximately 60% of our 2011 net revenues, 57% of our 2010 net revenues and 49% of our 2009 net revenues outside the U.S. With operations in more than 80 countries, our operations are subject to risks inherent in multinational operations. Those risks include:

- compliance with U.S. laws affecting operations outside of the U.S., such as the Foreign Corrupt Practices Act (FCPA),
- compliance with a variety of local regulations and laws,
- changes in tax laws and the interpretation of those laws,
- fluctuations in currency values,
- sudden changes in foreign currency exchange controls,
- discriminatory or conflicting fiscal policies,
- difficulties enforcing intellectual property and contractual rights in certain jurisdictions,
- greater risk of uncollectible accounts and longer collection cycles,
- effective and immediate implementation of control environment processes across our diverse operations and employee base, and
- imposition of more or new tariff, quotas, trade barriers, and similar restrictions on our sales outside the U.S.

Moreover, political and economic changes or volatility, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, public corruption and other economic or political uncertainties could interrupt and negatively affect our business operations. All of these factors could result in increased costs or decreased revenues, and could materially and adversely affect our product sales, financial condition and results of operations.

Our operations in certain developing markets expose us to political, economic and regulatory risks.

Our growth strategy depends in part on our ability to expand our operations in developing markets, including Brazil, China, India, Mexico, Russia and Southeast Asia. However, some developing markets have greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions than established markets. In many countries outside of the U.S., particularly in those with developing economies, it may be common for others to engage in business practices prohibited by laws and regulations applicable to us, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act or similar local anti-bribery laws. These laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials for the purpose of obtaining or retaining business. Failure to comply with these laws could subject us to civil and criminal penalties that could materially and adversely affect our financial condition and results of operations.

In addition, competition in developing markets is increasing as our competitors grow their global operations and low cost local manufacturers expand their production capacities. Our success in integrating Cadbury s operations and products, many of which have a strong presence in a number of developing markets, is critical to our growth strategy. If we cannot successfully increase our business in developing markets, our product sales, financial condition and results of operations could be materially and adversely affected.

Unanticipated business disruptions could affect our ability to provide our products to our customers.

We have a complex network of suppliers, owned manufacturing locations, co-manufacturing locations, distribution networks and information systems that support our ability consistently to provide our products to our customers. Factors that are hard to predict or beyond our control, like weather, natural disasters, fire, terrorism, generalized labor unrest or health pandemics, could damage or disrupt our operations, or our suppliers or co-manufacturers operations. If we cannot respond to disruptions in our operations, whether by finding alternative suppliers or replacing capacity at key manufacturing or distribution locations, or are unable to quickly repair damage to our information, production or supply systems, we may be late in delivering, or unable to deliver, products to our customers. If that occurs, our customers confidence in us and long-term demand for our products could decline. Any of these events could materially and adversely affect our product sales, financial condition and results of operations.

We must correctly predict, identify and interpret changes in consumer preferences and demand, and offer new products to meet those changes.

Consumer preferences for food products change continually. Our success depends on our ability to predict, identify and interpret the tastes and dietary habits of consumers and to offer products that appeal to consumer preferences. If we do not offer products that appeal to consumers, our sales and market share will decrease and our profitability could suffer.

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We must distinguish among short-term fads, mid-term trends and long-term changes in consumer preferences. If we do not 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 an array of products that satisfy the broad spectrum of consumer preferences. If we fail to expand our product offerings successfully across product categories, or if we do not rapidly develop products in faster growing and more profitable categories, demand for our products will decrease and our profitability could suffer.

Prolonged negative perceptions concerning the health implications of certain food products could influence consumer preferences and acceptance of some of our products and marketing programs. For example, recently, consumers have been increasingly focused on health and wellness, including weight management and reducing sodium consumption. We strive to respond to consumer preferences and social expectations, but we may be unsuccessful in these efforts. Continued negative perceptions and failure to satisfy consumer preferences could materially and adversely affect our product sales, financial condition and results of operations.

We may not successfully complete proposed acquisitions or divestitures or integrate acquired businesses.

From time to time, we evaluate acquisition candidates that may strategically fit our business objectives. If we are unable to complete acquisitions or to successfully integrate and develop acquired businesses, including Cadbury, we could fail to achieve anticipated synergies and cost savings, including the expected increases in revenues and operating results, any of which could materially and adversely affect our financial results. In addition, we may divest businesses that do not meet our strategic objectives, or do not meet our growth or profitability targets. We may not be able to complete desired or proposed divestitures on terms favorable to us. Gains or losses on the sales of, or lost operating income from, those businesses may affect our profitability. Moreover, we may incur asset impairment charges related to acquisitions or divestitures that reduce our profitability.

Our acquisition or divestiture activities may present financial, managerial and operational risks. Those risks include diversion of management attention from existing core businesses, difficulties integrating or separating personnel and financial and other systems, effective and immediate implementation of control environment processes across our diverse employee population, 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 factors could materially and adversely affect our product sales, financial condition and results of operations.

We are subject to foreign currency exchange rate fluctuations.

Our acquisition of Cadbury and disposition of our Frozen Pizza business increased the portion of our assets, liabilities and earnings denominated in non-U.S. dollar currencies, which increased our exposure to currency exchange rate fluctuations. Our financial results and capital ratios are now more sensitive to movements in foreign exchange rates than in prior periods because a larger portion of our assets, liabilities, revenue and expenses must be translated into U.S. dollars for external reporting purposes or converted into U.S. dollars to service obligations such as our U.S. dollar denominated indebtedness. In addition, movements in foreign exchange rates can affect transaction costs because we source product ingredients from various countries. We may seek to mitigate our exposure to currency exchange rate fluctuations, but our efforts may not be successful. Accordingly, a depreciation of non-U.S. dollar currencies relative to the U.S. dollar, or changes in the relative value of any two currencies that we use for transactions, could materially and adversely affect our financial condition and results of operations.

We are increasingly dependent on information technology, and if we are unable to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic and financial information, to manage a variety of business processes and activities, and to comply with regulatory, legal and tax requirements. We also depend on our information technology infrastructure for digital marketing activities and for electronic communications among our locations, personnel, customers and suppliers around the world. These information technology systems, some of which are managed by third parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. If our information technology systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, our product sales, financial condition and results of operations may be materially and adversely affected, and we could experience delays in reporting our financial results.

In addition, if we are unable to prevent security breaches, we may suffer financial and reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers or suppliers. In addition, the disclosure of non-public sensitive information through external media channels could lead to the loss of intellectual property or damage our reputation and brand image.

Weak financial performance, downgrades in our credit ratings, illiquid capital markets and volatile economic conditions could limit our access to the capital markets, reduce our liquidity or increase our borrowing costs.

From time to time we may need to access the long-term and short-term capital markets to obtain financing. Our financial performance, our short-and long-term credit ratings, the liquidity of the overall capital markets and the state of the economy, including the food industry, will affect our access to, and the availability of, financing on acceptable terms and conditions in the future. There can be no assurance that we will have access to the capital markets on terms we find acceptable.

We access the commercial paper market for regular funding requirements. A downgrade in our credit ratings would increase our borrowing costs and could affect our ability to issue commercial paper. Disruptions in the commercial paper market or other effects of volatile economic conditions on the credit markets also could reduce the amount of commercial paper that we could issue and could raise our borrowing costs for both short-and long-term debt offerings. Our inability to access the capital markets or an increase in our borrowing costs could materially and adversely affect our financial condition and results of operations.

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.

We sponsor a number of benefit plans for employees in the United States, the United Kingdom and many other non-U.S. locations, including defined benefit pension plans, retiree health and welfare, active health care, severance and other postemployment benefits. At the end of 2011, the projected benefit obligation of our defined benefit pension plans was $17.1 billion and assets were $13.4 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. Our major defined benefit pension plans are funded with trust assets invested in a globally diversified portfolio of investments, including equities and corporate debt. We also have an insignificant amount of trust assets invested in European and other sovereign debt. Among other factors, changes in interest rates, mortality rates, early retirement rates, investment returns, minimum funding requirements in the jurisdictions in which the plans operate, arrangements made with the trustees of certain foreign plans and the market value of plan assets can affect the level of plan funding, cause volatility in the net periodic pension cost, and increase our future funding requirements. Legislative and other governmental regulatory actions may also increase funding requirements for our pension plans benefits obligation.

Based on current tax laws, we estimate the 2012 pension contributions will be approximately $480 million, which is approximately $420 million less than we contributed in 2011. We also expect that our net pension cost will increase to approximately $750 million in 2012. Volatility in the global capital markets has increased 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 2012.

A significant increase in our U.S. pension funding requirements could have a negative impact on our ability to invest in the business. 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.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We have 220 manufacturing and processing facilities worldwide. These facilities are located in 59 countries. We have 57 facilities in Kraft Foods North America, 62 in Kraft Foods Europe and 101 In Kraft Foods Developing Markets.

We own 208 and lease 12 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 also have 228 distribution centers and depots worldwide. We own 49 of these distribution centers and depots, and we lease 179 of these distribution centers and depots. In North America, we have 134 distribution centers and depots, more than 61% of which support our direct store delivery systems. Outside North America, we have 94 distribution centers and depots in 29 countries.

These facilities are in good condition, and we believe they have sufficient capacity to meet our distribution needs in the near term.

These facilities are located throughout the following regions:

Region	00,000,000 **Number of Manufacturing Facilities**	00,000,000 **Number of Distribution Facilities**
U.S.	46	124
Canada	11	10
Western Europe	62	23
Central & Eastern Europe, Middle East and Africa	48	3
Latin America	20	13
Asia Pacific	33	55
Total	220	228

Item 3. Legal Proceedings.

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

Competition authorities in certain Member States of the European Union have ongoing investigations into possible anticompetitive activity in the fast moving consumer goods (FMCG) sector, which includes products such as chocolate and coffee. On October 18, 2011, the German Federal Cartel Office (FCO) issued a press release stating that it had discontinued proceedings against our wholly owned subsidiary, Kraft Foods Deutschland GmbH (KFD), based on a settlement agreed between KFD and the FCO following the FCO s finding of illegal price agreements regarding instant cappuccino. The FCO also imposed a fine against a former KFD employee. Due to KFD s cooperation with the FCO in the matter, the fine to resolve the matter was reduced to EUR 2.2 million (or approximately $3 million as of October 18, 2011).

A compliant and ethical corporate culture, which includes adhering to laws and industry regulations in all jurisdictions in which we do business, is integral to our success. Accordingly, after we acquired Cadbury in February 2010 we began reviewing and adjusting, as needed, Cadbury s operations in light of U.S. and international standards as well as Kraft Foods policies and practices. We initially focused on such high priority areas as food safety, the Foreign Corrupt Practices Act (FCPA) and antitrust. Based upon Cadbury s pre-acquisition policies and compliance programs and our post-acquisition reviews, our preliminary findings indicated that Cadbury s overall state of compliance was sound. Nonetheless, through our reviews, we determined that in certain jurisdictions, including India, there appeared to be facts and circumstances warranting further investigation. We are continuing our investigations in certain jurisdictions, including in India, and we continue to cooperate with governmental authorities.

On March 1, 2011, the Starbucks Coffee Company (Starbucks), without our authorization and in what we contend is a violation and breach of our agreements with Starbucks, took control of the Starbucks packaged coffee business (Starbucks CPG business) in grocery stores and other channels, after alleging we had breached the Supply and License Agreement. The dispute is pending Arbitration in Chicago, Illinois. We are seeking appropriate remedies, including but not limited to payment of the fair market value of the Supply and License Agreement plus the premium this agreement specifies. Starbucks has counterclaimed for unspecified damages. The arbitration proceeding is set to begin on July 11, 2012 and is expected to conclude on July 31, 2012. The results of the Starbucks CPG business were included primarily in our U.S. Beverage and Canada and N.A. Foodservice segments through March 1, 2011.

As we previously disclosed, on February 1, 2011, we received a subpoena from the SEC in connection with an investigation under the FCPA, primarily related to a Cadbury facility in India that we acquired in the Cadbury acquisition. The subpoena primarily requests information regarding dealings with Indian governmental agencies and officials to obtain approvals related to the operation of that facility. We are cooperating with the U.S. government in its investigation of these matters.

While we cannot predict with certainty the results of these or any other Legal Matters in which we are currently involved, we do not expect that the ultimate costs to resolve any of these Legal Matters will have a material effect on our financial results.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our Common Stock is listed on the New York Stock Exchange (NYSE). At January 31, 2012, there were approximately 75,743 holders of record of our Common Stock.

Comparison of Five-Year Cumulative Total Return

The following graph compares the cumulative total return on our Common Stock with the cumulative total return of the S&P 500 Index and the performance peer group index. The graph shows total shareholder return assuming $100 was invested on December 31, 2006 and dividends were reinvested on a quarterly basis.

	00,000,000	00,000,000	00,000,000
Date	**Kraft Foods**	**S&P 500**	**Performance Peer Group**
December 2006	$ 100.00	$ 100.00	$ 100.00
December 2007	94.28	105.48	122.88
December 2008	80.55	66.52	97.34
December 2009	85.37	84.07	121.72
December 2010	102.85	96.71	140.35
December 2011	126.12	98.76	149.69

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

Information regarding our Common Stock market prices on the NYSE and dividends declared during the last two fiscal years is included in Note 17, *Quarterly Financial Data (Unaudited)*, to the consolidated financial statements.

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 Securities Exchange Act of 1934, as amended.

Issuer Purchases of Equity Securities during the Quarter ended December 31, 2011

There are currently no share repurchase programs authorized by our Board of Directors. The following activity represents shares tendered by our employees who used shares to exercise options, and who used shares to pay the related taxes for grants of restricted and deferred stock that vested. Accordingly, these are non-cash transactions.

	00,000,000	00,000,000
	Total Number of Shares	**Average Price Paid per Share**
October 1 31, 2011	151	$ 34.18
November 1 30, 2011	16,184	35.01
December 1 31, 2011	5,157	35.22
For the Quarter Ended December 31, 2011	21,492	$ 35.20

Item 6. Selected Financial Data.

Kraft Foods Inc.

Selected Financial Data Five Year Review*

	00,000,000 **2011**	00,000,000 **2010**	00,000,000 **2009**	00,000,000 **2008**	00,000,000 **2007**
	(in millions of dollars, except share, per share and employee data)				
Year Ended December 31:					
Net revenues	$ 54,365	$ 49,207	$ 38,754	$ 40,492	$ 34,580
Cost of sales	35,350	31,305	24,819	27,164	22,848
Operating income	6,657	5,666	5,183	3,576	3,939
Operating margin	*12.2%*	*11.5%*	*13.4%*	*8.8%*	*11.4%*
Interest and other expense, net	1,885	2,024	1,237	1,240	604
Earnings from continuing operations before income taxes	4,772	3,642	3,946	2,336	3,335
Provision for income taxes	1,225	1,147	1,136	658	992
Earnings from continuing operations	3,547	2,495	2,810	1,678	2,343
Earnings and gain from discontinued operations, net of income taxes		1,644	218	1,215	381
Net earnings	3,547	4,139	3,028	2,893	2,724
Noncontrolling interest	20	25	7	9	3
Net earnings attributable to Kraft Foods	$ 3,527	$ 4,114	$ 3,021	$ 2,884	$ 2,721
Basic EPS attributable to Kraft Foods:					
Continuing operations	$ 2.00	$ 1.44	$ 1.90	$ 1.11	$ 1.47
Discontinued operations		0.96	0.14	0.81	0.24
Net earnings attributable to Kraft Foods	$ 2.00	$ 2.40	$ 2.04	$ 1.92	$ 1.71
Diluted EPS attributable to Kraft Foods:					
Continuing operations	$ 1.99	$ 1.44	$ 1.89	$ 1.10	$ 1.46
Discontinued operations		0.95	0.14	0.80	0.24
Net earnings attributable to Kraft Foods	$ 1.99	$ 2.39	$ 2.03	$ 1.90	$ 1.70
Weighted-average shares-basic	1,765	1,715	1,478	1,505	1,591
Weighted-average shares-diluted	1,772	1,720	1,486	1,515	1,600
Net cash provided by operating activities	$ 4,520	$ 3,748	$ 5,084	$ 4,141	$ 3,571
Capital expenditures	1,771	1,661	1,330	1,367	1,241
Depreciation	1,260	1,229	905	963	873
As of December 31:					
Inventories, net	$ 5,706	$ 5,310	$ 3,775	$ 3,881	$ 4,238
Property, plant and equipment, net	13,813	13,792	10,693	9,917	10,778
Total assets	93,837	95,289	66,714	63,173	68,132
Long-term debt	23,095	26,859	18,024	18,589	12,902
Total debt	26,931	28,724	18,990	20,251	21,009
Total long-term liabilities	40,064	43,454	29,251	29,773	23,574
Total Kraft Foods shareholders equity	35,217	35,834	25,876	22,295	27,407
Total equity	35,328	35,942	25,972	22,356	27,445
Shares outstanding at year end	1,768	1,748	1,478	1,469	1,534
Book value per common share outstanding	$ 19.92	$ 20.50	$ 17.51	$ 15.18	$ 17.87
Dividends declared per share	$ 1.16	$ 1.16	$ 1.16	$ 1.12	$ 1.04
Dividends as a % of basic / diluted EPS	58.0% /58.3%	48.3% /48.5%	56.9% /57.1%	58.3% /58.9%	60.8% /61.2%
Common Stock closing price at year end	$ 37.36	$ 31.51	$ 27.18	$ 26.85	$ 32.63
Common Stock price-high / low	$ 37.93/$30.21	$ 32.67/$27.09	$ 29.84/$20.81	$ 34.97/$24.75	$ 37.20/$29.95
Price / earnings ratio-basic / diluted	19 / 19	13 / 13	13 / 13	14 / 14	19 / 19

Number of employees	126,000	127,000	97,000	98,000	103,000

* Significant items affecting comparability are discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, past 10-K Annual Reports and the notes to the consolidated financial statements. They include the acquisitions of Cadbury in 2010 and LU biscuits in 2007; the divestitures of Frozen Pizza in 2010 and Post Cereals in 2008, the cessation of the Starbucks CPG business in 2011, Restructuring and Integration Program and cost savings initiatives and accounting calendar changes (including a 53rd week in 2011). Please refer to Notes 1, *Summary of Significant Accounting Policies;* 3, *Acquisitions and Divestitures;* and 16, *Segment Reporting*, for additional information regarding items affecting comparability of our historical financial results.

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

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

Description of the Company

We manufacture and market packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products. We have operations in more than 80 countries and sell our products in approximately 170 countries.

Proposed Spin-Off Transaction

On August 4, 2011, we announced that our Board of Directors intends to create two independent public companies: (i) a global snacks business (the Global Snacks Business) and (ii) a North American grocery business (the North American Grocery Business). The Global Snacks Business will consist of our current Kraft Foods Europe and Developing Markets segments as well as our North American snack and confectionery businesses. The North American Grocery Business will primarily consist of our current U.S. Beverages, U.S. Cheese, U.S. Convenient Meals and U.S. Grocery segments, grocery related categories in our Canada & N.A. Foodservice segment as well as the *Planters* and *Corn Nuts* brands and businesses. We expect to create these companies through a U.S. tax-free spin-off of the North American Grocery Business to our shareholders.

The transaction is subject to a number of conditions, including the receipt of regulatory approvals, a favorable ruling from the Internal Revenue Service to ensure the U.S. tax-free status of the spin-off, execution of intercompany agreements, further diligence as appropriate and final approval from our Board of Directors. While our current target is to complete the spin-off before year-end 2012, we cannot assure that the spin-off will be completed on the anticipated timeline or that the terms of the spin-off will not change. See Part II, Item 1A. Risk Factors for certain risk factors relating to the proposed spin-off transaction. The disclosures within this Management s Discussion and Analysis of Financial Condition and Results of Operations are on a consolidated Kraft Foods Inc. basis and do not take into account the proposed spin-off of the North American Grocery Business.

Summary of Results and Other Significant Highlights

Net revenues increased 10.5% to $54.4 billion in 2011 and increased 27.0% to $49.2 billion in 2010.

Organic net revenues, a non-GAAP financial measure we use to evaluate our underlying results (see our reconciliation with net revenues and a discussion of our *Non-GAAP Financial Measures* later in this section), increased 6.6% to $51.5 billion in 2011 and increased 3.2% to $39.9 billion in 2010.

Diluted EPS attributable to Kraft Foods decreased 16.7% to $1.99 in 2011 and increased 17.7% to $2.39 in 2010. In 2010, $0.95 related to discontinued operations from our divestiture of our North American frozen pizza business. Diluted EPS attributable to Kraft Foods from continuing operations increased 38.2% to $1.99 in 2011 and decreased 23.8% to $1.44 in 2010. The increase in 2011 was attributable to a number of factors which we discuss further in this section, including $0.04 related to accounting calendar changes and the inclusion of a 53rd week of shipments.

Operating EPS, a non-GAAP financial measure we use to evaluate our underlying results (see our reconciliation with Diluted EPS and a discussion of our *Non-GAAP Financial Measures* later in this section), increased 13.4% to $2.29 in 2011 and increased 4.7% to $2.02 in 2010. The increase in 2011 was attributable to a number of factors which we discuss further in this section, including $0.04 related to accounting calendar changes and the inclusion of a 53rd week of shipments.

On February 2, 2010, we acquired 71.73% of the outstanding ordinary shares of Cadbury Limited (Cadbury) and as of June 1, 2010, we owned 100% of all outstanding Cadbury shares. The Cadbury acquisition was valued at $18,547 million, or $17,503 million net of cash and cash equivalents. We issued 262 million shares of our Class A common stock (Common Stock) and paid $10.9 billion in cash. On February 8, 2010, we issued $9.5 billion of senior unsecured notes and primarily used the $9,379 million net proceeds to

finance the Cadbury acquisition. See Note 3, *Acquisitions and Divestitures,* and Note 8, *Debt and Borrowing Arrangements,* to the consolidated financial statements*,* for additional details.

On December 29, 2010, we repurchased $1.5 billion of our notes due in 2011 and 2012. We paid $1,596 million aggregate consideration, including accrued and unpaid interest, for the accepted notes.

On March 1, 2010, we completed the sale of the assets of our North American frozen pizza business to Nestlé USA, Inc. for $3.7 billion. Accordingly, the results of our frozen pizza business have been reflected as discontinued operations on the consolidated statement of earnings for all periods presented.

Discussion and Analysis

Strategy

Over the last several years, we have transformed our portfolio by expanding geographically and building our presence in the fast-growing snacking category. At the same time, we have continued to invest in product quality, marketing and innovation behind our iconic North American brands, while implementing a series of cost saving initiatives. Our Global Snacks Business and the North American Grocery Business now have different future strategic priorities, growth profiles and operational focus. As such, we expect that our proposed spin-off will provide both businesses an opportunity to pursue different strategies and achieve a distinct operational focus and return on investment.

The Global Snacks Business will build upon its strong presence across numerous fast-growing markets, categories, and channels, including the high-margin instant consumption channel. This business will target industry-leading revenue growth, leverage its cost structure through volume growth and improved product mix to drive margin gains, and grow earnings per share in the top-tier of its peer group.

The North American Grocery Business will build on its leading market positions by targeting moderate revenue growth while maintaining a sharp focus on its cost structure and superior execution. This business will target revenue growth in line with its categories, strong margins and free cash flow, and expects to have a highly competitive dividend payout.

Items Affecting Comparability of Financial Results

Acquisitions and Divestitures

Cadbury Acquisition:

On February 2, 2010, we acquired 71.73% of Cadbury Limited (Cadbury) and as of June 1, 2010, we owned 100% of all outstanding Cadbury shares. See Note 3, *Acquisitions and Divestitures*, to the consolidated financial statements for additional information.

As part of our Cadbury acquisition, we incurred and expensed transaction related fees of $218 million in 2010 and $40 million in 2009. We recorded these expenses within selling, general and administrative expenses. We also incurred acquisition financing fees of $96 million in 2010. We recorded these expenses within interest and other expense, net.

To secure EU regulatory approval of the acquisition, we were required to divest certain Cadbury confectionery operations in Poland and Romania. In 2010, we completed the sale of the assets of these businesses and generated $342 million in sale proceeds. The impacts of these divestitures were primarily reflected as adjustments to the Cadbury purchase price allocations.

Cadbury contributed net revenues of $9,143 million and net earnings of $530 million from February 2, 2010 through December 31, 2010. The following unaudited pro forma summary presents Kraft Foods consolidated information as if Cadbury had been acquired on January 1, 2009. These amounts were calculated after conversion to U.S. GAAP, applying our accounting policies, and adjusting Cadbury s results to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment, and intangible assets had been applied from January 1, 2009, together with the consequential tax effects. These adjustments also reflect the additional interest expense incurred on the debt to finance the purchase, and the divestitures of certain Cadbury confectionery operations in Poland and Romania.

	00,000,000,000	00,000,000,000
	Pro forma for the Years Ended December 31,	
	2010	**2009**
	(in millions)	
Net revenues	$ 49,770	$ 47,852
Net earnings attributable to Kraft Foods	3,938	2,586

Our February 2, 2010, Cadbury acquisition was valued at $18,547 million, or $17,503 million net of cash and cash equivalents. As part of that acquisition, we acquired the following assets and assumed the following liabilities (in millions):

	00,000,000
Receivables [1]	$ 1,333
Inventories	1,298
Other current assets	660
Property, plant and equipment	3,293
Goodwill [2]	9,530
Intangible assets [3]	12,905
Other assets	593
Short-term borrowings	(1,206)
Accounts payable	(1,605)
Other current liabilities [4]	(1,866)
Long-term debt	(2,437)
Deferred income taxes	(3,218)
Accrued pension costs	(817)
Other liabilities	(927)
Noncontrolling interest	(33)

(1) The gross amount of acquired receivables was $1,474 million, of which $141 million was reserved as uncollectable.
(2) Goodwill will not be deductible for statutory tax purposes and is attributable to Cadbury s workforce and the significant synergies we expect from the acquisition.
(3) We acquired $10.3 billion of indefinitely lived intangible assets, primarily trademarks, and $2.6 billion of amortizable intangible assets, primarily customer relationships and technology. Customer relationships will be amortized over approximately 13 years and technology will be amortized over approximately 12 years.
(4) Within other current liabilities, a reserve for exposures related to taxes of approximately $70 million was established within our Developing Markets segment. The cumulative exposure was approximately $150 million at December 31, 2010.

Pizza Divestiture:

On March 1, 2010, we completed the sale of the assets of our North American frozen pizza business (Frozen Pizza) to Nestlé USA, Inc. (Nestlé) for $3.7 billion. Our Frozen Pizza business was a component of our U.S. Convenient Meals and Canada & North America Foodservice segments. The sale included the *DiGiorno*, *Tombstone* and *Jack s* brands in the U.S., the *Delissio* brand in Canada and the *California Pizza Kitchen* trademark license. It also included two Wisconsin manufacturing facilities (Medford and Little Chute) and the leases for the pizza depots and delivery trucks. Approximately 3,600 of our employees transferred with the business to Nestlé. Accordingly, the results of our Frozen Pizza business have been reflected as discontinued operations on the consolidated statement of earnings for all periods presented. As a result of the divestiture, we recorded a gain on discontinued operations of $1,596 million, or $0.92 per diluted share, in 2010.

Pursuant to the Frozen Pizza business Transition Services Agreement, we agreed to provide certain sales, co-manufacturing, distribution, information technology, accounting and finance services to Nestlé for up to two years. As of December 31, 2011, these service agreements were substantially complete.

Summary results of operations for the Frozen Pizza business through March 1, 2010 were as follows:

	00,000,000,000	00,000,000,000
	For the Years Ended December 31,	
	2010	**2009**
	(in millions)	
Net revenues	$ 335	$ 1,632
Earnings before income taxes	73	341

Provision for income taxes		(25)		(123)
Gain on discontinued operations, net of income taxes		1,596		
Earnings and gain from discontinued operations, net of income taxes	$	1,644	$	218

Earnings before income taxes as presented exclude associated allocated overheads of $25 million in 2010 and $108 million in 2009. The 2010 gain on discontinued operations from the sale of the Frozen Pizza business included tax expense of $1.2 billion.

The following assets of the Frozen Pizza business were included in the Frozen Pizza divestiture (in millions):

		00,000,000
Inventories, net	$	102
Property, plant and equipment, net		317
Goodwill		475
Divested assets of the Frozen Pizza business	$	894

Other Divestitures:

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

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

Integration Program and Cost Savings Initiatives

Integration Program

Our combination with Cadbury continues to have the potential for meaningful synergies and costs savings. We now expect to recognize approximately $800 million of cost savings by the end of the third year following completion of the acquisition, up from our original estimate of $750 million. Additionally, we expect to create revenue synergies from investments in distribution, marketing and product development. In order to achieve these cost savings and synergies, we expect to incur total integration charges of approximately $1.5 billion in the first three years following the acquisition to combine and integrate the two businesses (the Integration Program).

Integration Program costs include the costs associated with combining our operations with Cadbury s and are separate from the costs related to the acquisition. We incurred charges under the Integration Program of $521 million in 2011 and $657 million in 2010. We recorded these charges primarily in operations as a part of selling, general and administrative expenses within our Kraft Foods Europe and Kraft Foods Developing Markets segments, as well as general corporate expenses. Since the inception of the Integration Program, we have incurred approximately $1.2 billion of the $1.5 billion in expected charges. At December 31, 2011, we had an accrual of $346 million related to the Integration Program. See Note 7, *Integration Program and Cost Savings Initiatives*, to the consolidated financial statements for additional information.

Cost Savings Initiatives

Cost savings initiatives generally include exit, disposal and other project costs and consisted of the following specific initiatives:

- In 2011, we recorded a $64 million charge primarily within the segment operating income of Kraft Foods Europe and related to severance benefits provided to terminated employees and charges in connection with Kraft Foods Europe reorganization. We also reversed $37 million of cost savings initiative program costs across all segments except Kraft Foods Europe.
- In 2010, we recorded $170 million primarily within the segment operating income of Kraft Foods Europe and Canada & N.A. Foodservice and in connection with the Kraft Foods Europe reorganization.
- In 2009, we recorded $318 million primarily for severance benefits provided to terminated employees, associated benefit plan costs and other related activities. These were recorded in operations, primarily within the segment operating income of Kraft Foods Europe, with the remainder spread across all other segments.

Within our Integration Program and cost savings initiatives, we include certain costs along with exit and disposal costs that are directly attributable to these activities and do not qualify for treatment as exit or disposal costs under U.S. GAAP. These costs, which we commonly refer to as other project costs or implementation costs, generally include the integration and reorganization of operations and facilities, the

discontinuance of certain product lines and the incremental expenses related to the closure of facilities. We believe the disclosure of these charges within our operating income provides greater transparency of the impact of these programs and initiatives on our operating results.

Starbucks CPG Business

On March 1, 2011, the Starbucks Coffee Company (Starbucks), without our authorization and in what we contend is a violation and breach of our agreements with Starbucks, took control of the Starbucks packaged coffee business (Starbucks CPG business) in grocery stores and other channels, after alleging we had breached the Supply and License Agreement. The dispute is pending Arbitration in Chicago, Illinois. We are seeking appropriate remedies, including but not limited to payment of the fair market value of the Supply and License Agreement plus the premium this agreement specifies. Starbucks has counterclaimed for unspecified damages. The arbitration proceeding is set to begin on July 11, 2012 and is expected to conclude on July 31, 2012. The results of the Starbucks CPG business were included primarily in our U.S. Beverage and Canada and N.A. Foodservice segments through March 1, 2011.

Accounting Calendar Changes in 2011 and 2010

The majority of our operating subsidiaries report results as of the last Saturday of the year. A portion of our international operating subsidiaries report results as of the last calendar day or the last Saturday of the year. Because a significant number of our operating subsidiaries report results on the last Saturday of the year and this year, that day fell on December 31, our results included an extra week (53rd week) of operating results than in the prior two years which had 52-weeks.

In 2011, we changed the consolidation date for certain operations of our Kraft Foods Europe segment and in the Latin America and Central and Eastern Europe, Middle East and Africa (CEEMA) regions within our Kraft Foods Developing Markets segment. Previously, these operations primarily reported results two weeks prior to the end of the period. Now, our Kraft Foods Europe segment reports results as of the last Saturday of each period. Our operations in Latin America and certain operations in CEEMA report results as of the last calendar day of the period or the last Saturday of the period. These changes and the 53rd week in 2011 resulted in a favorable impact to net revenues of approximately $920 million and a favorable impact of approximately $150 million to operating income in 2011.

In 2010, we changed the consolidation date for certain European biscuits operations, which are included within our Kraft Foods Europe segment, and certain operations in Asia Pacific and Latin America within our Kraft Foods Developing Markets segment. Previously, these operations primarily reported period-end results one month or two weeks prior to the end of the period. Kraft Foods Europe moved the reporting of these operations to two weeks prior to the end of the period, and Asia Pacific and Latin America moved the reporting of these operations to the last day of the period. These changes resulted in a favorable impact to net revenues of approximately $200 million and had an insignificant impact on operating income in 2010.

We believe these changes are preferable and will improve business planning and financial reporting by better matching the close dates of the operating subsidiaries within our Kraft Foods Europe segment and Kraft Foods Developing Markets segment and by bringing the reporting date closer to the period-end date. As the effect to prior-period results was not material, we have not revised prior-period results.

Provision for Income Taxes

Our effective tax rate was 25.7% in 2011, 31.5% in 2010, and 28.8% in 2009. Our 2011 effective tax rate was favorably impacted by net tax benefits of $199 million from discrete one-time events, primarily from the revaluation of U.K. deferred tax assets and liabilities resulting from tax legislation enacted in 2011 that reduced U.K. corporate income tax rates, the reversal of valuation allowances on certain foreign deferred tax assets that are now expected to be realized, and the net favorable impact from various U.S. federal, U.S. state and foreign tax audit developments during the year. The 2011 effective tax rate also reflects increased tax benefits from operations outside the United States, which are generally taxed at lower rates than the U.S statutory rate of 35 percent. The mix of pretax income from these various foreign jurisdictions can have a significant impact on our effective tax rate. The fourth quarter and full year tax rate benefited from lower than projected taxes on our earnings outside the U.S., and the fourth quarter was also favorable due to a true-up of prior quarter estimates to a lower actual tax expense reported by these operations.

Our 2010 effective tax rate included net tax benefits of $123 million, primarily due to the favorable resolution of a federal tax audit and the resolution of several items in our international operations, partially offset by a $137 million write-off of deferred tax assets as a result of the U.S. health care legislation enacted in March 2010.

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

Consolidated Results of Operations

The following discussion compares our consolidated results of operations for 2011 with 2010, and for 2010 with 2009.

2011 compared with 2010

	00,000,000	00,000,000	00,000,000	00,000,000
	For the Years Ended December 31,			
	2011	**2010**	**$ change**	**% change**
	(in millions, except per share data)			
Net revenues	$ 54,365			