KRAFT FOODS INC
Form 10-K/A
February 26, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

(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, 2007

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER 1-16483

Kraft Foods Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer 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 29, 2007, was $56 billion. At January 31, 2008, there were 1,533,315,478 shares of the registrant s Class A Common Stock outstanding.

Documents Incorporated by Reference

Portions of the registrant s definitive proxy statement for use in connection with its annual meeting of shareholders to be held on May 13, 2008, to be filed with the Securities and Exchange Commission (the SEC) in March 2008, are incorporated in Part III hereof and made a part hereof.

Explanatory Note

This Amendment No. 1 on Form 10-K/A amends the registrant s Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on February 25, 2008, to correct an inadvertent error in the execution date of the certifications filed as Exhibits 31.1, 31.2 and 32.1 thereto. This amendment is not intended to update any other information presented in the Annual Report as originally filed, which is reproduced herein in its entirety for ease of reference.

Kraft Foods Inc.

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

PART I

Item 1. Business.

General

Kraft was incorporated in 2000 in the Commonwealth of Virginia. We manufacture and market packaged foods and beverages worldwide in more than 150 countries. We have nine brands with revenues exceeding $1 billion: *Kraft* cheeses, dinners and dressings; *Oscar Mayer* meats; *Philadelphia* cream cheese; *Maxwell House* coffee; *Nabisco* cookies and crackers and its *Oreo* brand; *Jacobs* coffees, *Milka* chocolates and *LU* biscuits. We have more than 50 additional brands with revenues of at least $100 million.

Prior to June 13, 2001, Kraft was a wholly-owned subsidiary of Altria Group, Inc. (Altria). On June 13, 2001, we completed an initial public offering of 280,000,000 shares of our Common Stock at a price of $31.00 per share.

In the first quarter of 2007, Altria spun off its remaining interest (89.0%) in Kraft on a pro rata basis to Altria stockholders in a tax-free transaction. Effective as of the close of business on March 30, 2007, all Kraft shares owned by Altria were distributed to Altria s stockholders, and our separation from Altria was completed (the Distribution). Before the Distribution, Altria converted all of its Class B shares of Kraft common stock into Class A shares of Kraft common stock. The Distribution ratio was calculated by dividing the number of shares of Kraft Common Stock held by Altria by the number of Altria shares outstanding on the record date, March 16, 2007. The distribution ratio was 0.692024 shares of Kraft Common Stock for every share of Altria common stock outstanding. Following the Distribution, we only have Class A common stock outstanding.

Because Kraft is a holding company, our principal source of funds is dividends from our subsidiaries. Our principal 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 manufacture and market packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products. We manage and report operating results through two commercial units, Kraft North America and Kraft International. Kraft North America operates in the U.S. and Canada, and we manage Kraft North America s operations by product category. We manage Kraft International s operations by geographic location. We have operations in more than 70 countries and sell our products in more than 150 countries.

Note 16 to our consolidated financial statements includes a breakout of net revenues and segment operating income by reportable segment for each of the last three years. Management uses segment operating income to evaluate segment performance and allocate resources. Segment operating income excludes unallocated general corporate expenses and amortization of intangibles. Management believes it is appropriate to disclose this measure to help investors analyze segment performance and trends.

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

	For the Years Ended December 31,		
	2007	**2006**	**2005**
Kraft North America:			
North America Beverages	7.4%	4.3%	9.3%
North America Cheese & Foodservice	13.6%	18.8%	18.6%
North America Convenient Meals	15.3%	19.4%	16.0%
North America Grocery	18.0%	19.5%	14.6%
North America Snacks & Cereals	22.4%	17.6%	18.8%
Kraft International:			
European Union	12.5%	11.6%	14.6%
Developing Markets [1]	10.8%	8.8%	8.1%
Total Kraft	100.0%	100.0%	100.0%

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

Our brands span five consumer sectors:

Snacks - primarily cookies, crackers, salted snacks and chocolate confectionery;
Beverages - primarily coffee, aseptic juice drinks and powdered beverages;
Cheese - primarily natural, process and cream cheeses;
Grocery - primarily ready-to-eat cereals, enhancers and desserts; and
Convenient Meals - primarily frozen pizza, packaged dinners, lunch combinations and processed meats.

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

	Percentage of 2007 Net Revenues by Consumer Sector [2]					
Segment [1]	**Snacks**	**Beverages**	**Cheese**	**Grocery**	**Convenient Meals**	**Total**
Kraft North America:						
North America Beverages	-	40.1%	-	-	-	8.7%
North America Cheese & Foodservice	3.1%	3.3%	74.0%	7.9%	4.1%	17.1%
North America Convenient Meals	-	-	-	-	88.4%	13.7%
North America Grocery	1.1%	-	-	50.2%	-	7.2%
North America Snacks & Cereals	46.0%	-	1.1%	23.8%	0.1%	17.5%
Total Kraft North America	50.2%	43.4%	75.1%	81.9%	92.6%	64.2%
Kraft International:						
European Union	28.2%	37.6%	14.7%	7.2%	5.8%	21.4%
Developing Markets	21.6%	19.0%	10.2%	10.9%	1.6%	14.4%
Total Kraft International	49.8%	56.6%	24.9%	18.1%	7.4%	35.8%
Total Kraft	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Consumer Sector Percentage of Total Kraft	30.5%	21.6%	18.6%	13.8%	15.5%	100.0%

(1) Note 16 to our consolidated financial statements includes a breakout of net revenues, total assets and long-lived assets by geographic region, as well as a breakout of net revenues and segment operating income by reportable segment for each of the last three years.
(2) Percentages are calculated based upon dollars rounded to millions.

Our U.S. subsidiaries export coffee products, refreshment beverages products, grocery products, cheese, biscuits, and processed meats. In 2007, these exports from the U.S. amounted to $153 million.

Products or similar products contributing 10% or more of Kraft s consolidated net revenues for each of the three years in the period ended December 31, 2007, were:

	2007	**2006**	**2005**
Cheese	19%	19%	19%
Biscuits	15%	15%	14%
Coffee	14%	14%	14%
Confectionery	11%	10%	10%

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

Kraft North America:	
North America Beverages	
Beverages:	*Maxwell House, General Foods International, Starbucks* (under license), *Yuban, Sanka, Nabob, Gevalia,* and *Seattle s Best* (under license) coffees; *Tassimo* hot beverage system; *Capri Sun* (under license), *Kool-Aid,* and *Crystal Light* aseptic juice drinks; *Kool-Aid, Tang, Crystal Light,* and *Country Time* powdered beverages; and *Tazo* teas (under license).
North America Cheese & Foodservice [(1)]	
Cheese:	*Kraft* and *Cracker Barrel* natural cheeses; *Philadelphia* cream cheese; *Kraft*, *Velveeta*, and *Cheez Whiz* process cheeses; *Kraft* grated cheeses; *Polly-O* cheese; *Deli Deluxe* process cheese slices; and *Breakstone s* and *Knudsen* cottage cheese and sour cream.

North America Convenient Meals	
Convenient Meals:	*DiGiorno, Tombstone, Jack s, Delissio,* and *California Pizza Kitchen* (under license) frozen pizzas; *Lunchables* lunch combinations; *Oscar Mayer* and *Louis Rich* cold cuts, hot dogs, and bacon; *Boca* soy-based meat alternatives; *Kraft* macaroni & cheese dinners; *South Beach Living* (under license) pizzas and meals; *Taco Bell Home Originals* (under license) meal kits; *Stove Top* stuffing mix; and *Deli Creations* complete sandwiches.
Grocery:	*Back to Nature* crackers, cookies, cereals, and macaroni & cheese dinners.
North America Grocery	
Grocery:	*Jell-O* dry packaged desserts; *Cool Whip* frozen whipped topping; *Jell-O* refrigerated gelatin and pudding snacks; *Handi-Snacks* shelf-stable pudding snacks; *Kraft* and *Miracle Whip* spoonable dressings; *Kraft* and *Good Seasons* salad dressings; *A.1.*steak sauce; *Kraft* and *Bull s-Eye* barbecue sauces; *Grey Poupon* premium mustards; *Shake N Bake* coatings; and *Kraft* peanut butter.
North America Snacks & Cereals	
Snacks:	*Oreo, Chips Ahoy!, Newtons, Nilla, Nutter Butter, SnackWell s,* and *Peek Freans* cookies; *Ritz, Premium, Triscuit, Wheat Thins, Cheese Nips, Honey Maid Grahams,* and *Teddy Grahams* crackers; *South Beach Living* (under license) crackers, cookies, and snack bars; *Planters* nuts and salted snacks; *Handi-Snacks* two-compartment snacks; *Terry s* and *Toblerone* chocolate confectionery products; *Back to Nature* bars; and *Balance* nutrition and energy snacks.
Cheese:	*Easy Cheese* aerosol cheese spread.
Grocery:	*Post* ready-to-eat cereals.
Kraft International: European Union	
Snacks:	*Milka, Suchard, Côte d Or, Marabou, Toblerone, Freia, Terry s, Daim / Dime, Figaro, Karuna, Lacta, Pavlides, Twist, Merenda, Meurisse, Prince Polo / Siesta, Mirabell, Pyros Mogyoros, Alpen Gold, Sport / Smash / Jazz, 3-Bit,* and *Belvita* chocolate confectionery products; *Estrella* and *Maarud* salted snacks; and *Oreo, Dorada, Digestive, Chiquilin, Tuc, Mini-Star, Mikado, Ourson, Petit Déjeuner, Cracotte, Belin, Heudebert, Grany, Petit Écolier, Pepito, Saiwa, Oro, Fonzies, Prince, Vitalinea, Opavia,* and *Gyori* biscuits.
Beverages:	*Jacobs, Gevalia, Carte Noire, Jacques Vabre, Kaffee HAG, Grand Mère, Kenco, Saimaza, Meisterroestung, Maxwell House, Onko, Splendid,* and *Karat* coffees; *Tassimo* hot beverage system; *Tang* powdered beverages; and *Suchard Express, O Boy,* and *Kaba* chocolate drinks.
Cheese:	*Kraft, Dairylea, Sottilette, Osella, Mama Luise,* and *El Caserío* cheeses; and *Philadelphia* cream cheese.
Grocery:	*Kraft* pourable and spoonable salad dressings; *Miracel Whip* spoonable dressings; and *Mirácoli* sauces.
Convenient Meals:	*Lunchables* lunch combinations; *Kraft* and *Mirácoli* pasta dinners and sauces; and *Simmenthal* canned meats.
Developing Markets	
Snacks:	*Oreo, Chips Ahoy!, Ritz, Club Social, Express, Kraker / Honey / Aveny Bran, Marbu, Dorada, Pepitos, Variedad, Pacific, Belvita, Cerealitas, Lucky*, *Trakinas, Tuc, Mini-Star, Mikado, Ourson, Petit Déjeuner, Cracotte, Bolshevik, Prichuda, Jubilee, Start, Major, Merendina, Jacob s, Chipsmore, Twisties, Biskuat, Milk Biscuit, Hi Calcium Soda* and *Tuc & Tiki* biscuits; *Milka*, *Toblerone*, *Lacta*, *Côte d Or*, *Shot*, *Terrabusi*, *Suchard*, *Alpen Gold*, *Karuna*, *Korona*, *Poiana*, *Svoge*, *Ukraina*, *Vozdushny*, *Chudny Vecher*, *Terry s,* and *Gallito* chocolate confectionery products; and *Estrella*, *Maarud*, *Kar*, *Lux*, and *Planters* nuts and salted snacks.
Beverages:	*Maxwell House*, *Maxim*, *Nova Brasilia,* and *Jacobs* coffee; *Tang*, *Clight*, *Kool-Aid*, *Verao*, *Frisco*, *Q-Refresh-Ko*, *Royal,* and *Fresh* powdered beverages; *Maguary* juice concentrate and ready-to-drink beverages; and *Capri Sun* (under license) aseptic juice drinks.

Cheese:	*Kraft, Velveeta,* and *Eden* process cheeses; *Kraft* and *Philadelphia* cream cheese; *Kraft* natural cheese; and *Cheez Whiz* process cheese spread.
Grocery:	*Royal* dry packaged desserts; *Post* ready-to-eat cereals; *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 & cheese dinners.

(1) Note that foodservice products span all Kraft North America segments and sectors.

In February 2008, we announced the implementation of our new operating structure. Our new structure reflects our strategy to *Rewire the Organization for Growth*. Within our new structure, business units now have full P&L accountability and are staffed accordingly. This also ensures that we are putting our resources closer to where decisions are made that affect our consumers. Our corporate and shared service functions are streamlining their organizations and focusing them on core activities that can more efficiently support the goals of the business units. Our new operating structure will result in changes to the reportable business segments within our North America commercial unit, beginning in the first quarter of 2008. These changes are:

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

As a result of implementing our new operating structure, we will report the results of operations under this new structure beginning in the first quarter of 2008 and we will restate results from prior periods in a consistent manner.

Significant Acquisitions and Divestitures

Danone Biscuit:

On November 30, 2007, we acquired the global biscuit business of Groupe Danone S.A. (Danone Biscuit) for 5.1 billion (approximately $7.6 billion) in cash subject to purchase price adjustments. On October 12, 2007, we entered into a 364-day bridge facility agreement, and at closing, we borrowed 5.1 billion under that facility in order to finance the acquisition. The acquisition included 32 manufacturing facilities and approximately 14,000 employees. Danone Biscuit generated global revenues of approximately $2.8 billion during 2007. Danone Biscuit will report results from operations on a one month lag; as such, there was no impact on our operating results in 2007. On a proforma basis, Danone Biscuit s net earnings for the year ended December 31, 2007 would have been insignificant to Kraft.

Post Distribution:

On November 15, 2007, we announced a definitive agreement to merge our *Post* cereals business (Post Business) into Ralcorp Holdings, Inc. (Ralcorp) after a tax-free distribution to our shareholders (the Post Distribution). We have signed an agreement with Ralcorp to execute the Post Distribution by means of a Reverse-Morris Trust transaction. This transaction is subject to customary closing conditions, including anti-trust approval, IRS tax-free ruling and Ralcorp shareholder approvals. To date, the anti-trust approval has been obtained. We anticipate that this transaction will be completed in mid-2008.

The Post Business had net revenues of approximately $1.1 billion in 2007 and includes such cereals as *Honey Bunches of Oats*, *Pebbles*, *Shredded Wheat*, *Selects*, *Grape Nuts* and *Honeycomb*. The brands in this transaction are distributed primarily in North America. In addition to the *Post* brands, the transaction includes four manufacturing facilities and certain manufacturing equipment. We anticipate that approximately 1,250 employees will join Ralcorp following the consummation of the transaction.

Our shareholders will receive at least 30.3 million shares of Ralcorp stock after the Post Distribution and the subsequent merger of the Post Business with Ralcorp. Based on market conditions prior to closing, we will determine whether the shares will be distributed in a spin-off or a split-off transaction. Either type of transaction is expected to be tax-free to our U.S. shareholders. In a spin-off transaction, our shareholders would receive a pro rata number of Ralcorp shares. In a split-off transaction, our shareholders would have the option to exchange their Kraft shares and receive Ralcorp shares at closing, resulting in a reduction

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in the number of shares of our Common Stock outstanding. In addition, Kraft will receive approximately $960 million of cash-equivalent value, which will be used to repay debt.

Customers

Our five largest customers accounted for approximately 28% of our net revenues in 2007, 29% in 2006 and 26% in 2005. Our ten largest customers accounted for approximately 37% of our net revenues in 2007, 40% in 2006 and 37% in 2005. One of our customers, Wal-Mart Stores, Inc., accounted for approximately 15% of our net revenues in 2007, 15% in 2006 and 14% in 2005.

Seasonality

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

Competition

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

Distribution

Kraft North America s products are generally sold to supermarket chains, wholesalers, supercenters, club stores, mass merchandisers, distributors, convenience stores, gasoline stations, drug stores, value stores and other retail food outlets. In general, the retail trade for food products is consolidating. Food products are distributed through distribution centers, satellite warehouses, company-operated and public cold-storage facilities, depots and other facilities. We currently distribute most products in North America through warehouse delivery, but we deliver biscuits and frozen pizza through two direct-store delivery systems. We are in the process of combining the executional benefits of direct-store delivery with the economics of warehouse delivery and plan to complete the full rollout of a wall-to-wall delivery system by mid-2008, where one sales representative covers an entire store. We support our selling efforts through three principal sets of activities: consumer advertising in broadcast, print, outdoor and on-line media; consumer incentives such as coupons and contests; and trade promotions to support price features, displays and other merchandising of our products by our customers. Subsidiaries and affiliates of Kraft International sell their food products primarily in the same manner and also engage the services of independent sales offices and agents.

Raw Materials

We are major purchasers of dairy, coffee, cocoa, wheat, corn products, soybean and vegetable oils, nuts, meat products, and sugar and other sweeteners. We also use significant quantities of glass, plastic and cardboard to package our products, and natural gas for our factories and warehouses. We continuously monitor worldwide supply and cost trends of these commodities so we can act quickly to obtain ingredients and packaging needed for production. We purchase a substantial portion of our dairy raw material requirements, including milk and cheese, from independent third parties such as agricultural cooperatives and independent processors. The prices for milk and other dairy product purchases are substantially influenced by market supply and demand, as well as by government programs. Dairy commodity costs on average were $750 million higher in 2007 than in 2006.

The most significant cost item in coffee products is green coffee beans, which are purchased on world markets. Green coffee bean prices are affected by the quality and availability of supply, trade agreements among producing and consuming nations, the unilateral policies of the producing nations, changes in the value of the U.S. dollar in relation to certain other currencies and consumer demand for coffee products. In 2007, coffee bean costs on average were higher than in 2006. A significant cost item in chocolate confectionery products is cocoa, which is purchased on world markets, and the price of which is affected by the quality and availability of supply and changes in the value of the British pound sterling and the U.S. dollar relative to certain other currencies. In 2007, cocoa bean and cocoa butter costs on average were higher than in 2006. Significant cost items in our

biscuit, cereal, and grocery products are grains or wheat, corn, and soybean oil. Grain costs have experienced significant cost increases as a result of burgeoning global demand for food, livestock feed and biofuels such as ethanol and biodiesel. In 2007, grain costs on average were higher than in 2006.

During 2007, our aggregate commodity costs rose significantly as a result of higher dairy, coffee, cocoa, wheat, meat products, soybean oil and packaging costs, partially offset by lower nut costs. For 2007, our commodity costs were approximately $1,250 million higher than 2006, following an increase of approximately $275 million for 2006 compared with 2005. We expect the higher cost environment to continue, particularly for dairy, grains, energy and packaging.

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

Intellectual Property

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

- *Starbucks* bagged coffee, *Seattle s Best* coffee, and *Torrefazione Italia* coffee for sale in U.S. grocery stores and other distribution channels;
- *Starbucks* and *Seattle s Best* coffee T-Discs and *Tazo* teas T-Discs for use in our *Tassimo* hot beverage system;
- *Tazo* teas for sale in grocery stores in the U.S.;
- *Capri Sun* aseptic juice drinks for sale in the U.S., Canada and within our Developing Markets segment;
- *Taco Bell Home Originals* Mexican style food products for sale in U.S. grocery stores;
- *California Pizza Kitchen* frozen pizzas for sale in grocery stores in the U.S. and Canada;
- *Pebbles* ready-to-eat cereals for sale in the U.S. and Canada; and
- *South Beach Living* pizzas, meals, breakfast wraps, lunch wrap kits, crackers, cookies, snack bars, cereals and dressings for sale in grocery stores in the U.S.

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

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

Research and Development

We pursue four objectives in research and development: product safety and quality; growth through new products; superior consumer satisfaction; and reduced costs. We have more than 2,100 food scientists, chemists and engineers working primarily in

six key technology centers: East Hanover, New Jersey; Glenview, Illinois; Tarrytown, New York; Banbury, United Kingdom; Paris, France; and Munich, Germany. These technology centers are equipped with pilot plants and state-of-the-art instruments. Research and development expense was $447 million in 2007, $419 million in 2006 and $385 million in 2005.

Regulation

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

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

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

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

Environmental Regulation

We are subject to various federal, state, local and foreign laws and regulations relating to the protection of the environment. We accrue for environmental remediation obligations on an undiscounted basis when amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change. Recoveries of environmental remediation costs from third parties are recorded as assets when their receipt is deemed probable. In the U.S., the laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and Superfund, which imposes joint and severable liability on each responsible party. As of December 31, 2007, our subsidiaries were involved in 70 active Superfund and other similar actions in the U.S. related to current operations and certain former or divested operations for which we retain liability.

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

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

Employees

At December 31, 2007, we employed approximately 103,000 people worldwide. Labor unions represent approximately 30% of our 41,000 employees in the U.S. Most of the unionized workers at our domestic locations are represented under contracts with the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union; the United Food and Commercial Workers International Union; and the International Brotherhood of Teamsters. These contracts expire at various times throughout the next several years. Outside the U.S., labor unions or workers councils represent approximately 55% of our 62,000 employees. Our business units are subject to various laws and regulations relating to their relationships with their employees. These laws and regulations are specific to the location of each enterprise. In addition, in accordance with EU requirements, we have established European Works Councils composed of management and elected members of our workforce. We believe that our relationships with employees and their representative organizations are good.

In January 2004, we announced a three-year restructuring program (the Restructuring Program) and, in January 2006, extended it through 2008. In connection with our severance initiatives, we have eliminated approximately 11,000 positions as of December 31, 2007; at that time we had announced the elimination of an additional 400 positions. Upon completion of the Restructuring Program, we expect to have eliminated approximately 13,500 positions.

Executive Officers of the Registrant

The following are our executive officers as of February 25, 2008:

Name	Age	Title
Irene B. Rosenfeld	54	Chairman and Chief Executive Officer
David Brearton	47	Executive Vice President, Operations and Business Services
Marc S. Firestone	48	Executive Vice President, Corporate and Legal Affairs and General Counsel
Sanjay Khosla	56	Executive Vice President and President, Kraft International
Karen J. May	49	Executive Vice President, Global Human Resources
Timothy R. McLevish	52	Executive Vice President and Chief Financial Officer
Richard G. Searer	54	Executive Vice President and President, Kraft North America
Jean E. Spence	50	Executive Vice President, Global Technology and Quality
Mary Beth West	45	Executive Vice President and Chief Marketing Officer

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

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

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

Mr. Khosla was appointed as Executive Vice President and President, Kraft International in January 2007. Before joining Kraft, he served as the Managing Director of the consumer and foodservice business for the New Zealand-based Fonterra Co-operative Group. Previously Mr. Khosla spent 27 years with Unilever in India, London and Europe.

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

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

Mr. Searer was appointed as Executive Vice President and President, Kraft North America in September 2006. Previously, Mr. Searer served as the Group Vice President and President, North America Convenient Meals Sector. Mr. Searer joined Kraft in 1981.

Ms. Spence was appointed as Executive Vice President, Global Technology and Quality in January 2004. Prior to her current position, Ms. Spence served as the Senior Vice President, Research and Development, Kraft Foods North America. She joined Kraft in 1981.

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

James P. Dollive, 56, was appointed Executive Vice President and Chief Financial Officer in 2006. In 2001, he was named as Senior Vice President and Chief Financial Officer and prior to that he held various positions with increasing responsibility within Kraft. Mr. Dollive joined Kraft in 1978 and will retire from Kraft effective February 29, 2008.

Franz - Josef H. Vogelsang, 57, was appointed as Executive Vice President, Global Supply Chain in January 2004. Prior to that role, he served as Senior Vice President, Operations, Procurement and Supply Chain for Kraft Foods International since 1998. Mr. Vogelsang retired from Kraft on January 1, 2008.

We adopted The Kraft Foods Code of Conduct for Compliance and Integrity, which qualifies as a code of ethics under Item 406 of Regulation S-K. The code applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. Our code of ethics is available free of charge on our website at http://www.kraft.com/assets/pdf/KraftFoods_CodeofConduct.pdf and will be provided free of charge to any stockholder submitting a written request to: Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, IL 60093. We will disclose any waiver we grant to our principal executive officer, principal financial officer, principal accounting officer or controller under our code of ethics, or certain amendments to the code of ethics, on our website at www.kraft.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 website at www.kraft.com and will be provided free of charge to any stockholder requesting a copy by writing to: Corporate Secretary, Kraft Foods Inc., Three Lakes Drive, Northfield, IL 60093. Certain of these materials may also be found in the proxy statement relating to our 2008 Annual Meeting of Shareholders.

Available Information

Our Internet address is www.kraft.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 http://www.kraft.com/Investor/sec-filings-annual-report/. The information on our website is not, and shall not be deemed to be, a part of this Annual Report on Form 10-K or incorporated into any other filings we make with the SEC.

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

Forward-Looking Statements

This report contains forward-looking statements regarding our expectation that there will be an adequate supply of the raw materials we use and that they are generally available from numerous sources; that our relationships with our employees and their representative organizations are good; with regard to our intent to merge our *Post* cereals business with Ralcorp, the closing date and that closing is subject to customary closing conditions, the number of employees we anticipate will join Ralcorp, the amount of Ralcorp stock our shareholders will own, that the transaction is expected to be tax-free to our U.S. shareholders, the effects depending on whether we determine to do a spin-off or a split-off and the amount of cash we will receive; with regard to the Danone global biscuit business that we plan to build profitable scale by expanding distribution reach in countries with rapidly growing demand; our plan to contain administrative overhead while investing in quality, R&D, marketing, sales and other capabilities that support growth; the amount we will spend on quality upgrades in 2008; with regard to our Restructuring Program, our pre-tax charges, the number of facilities we intend to close and the number of positions we will eliminate, the use of cash to pay approximately $1.7 billion of the charges and the amount of cumulative and annualized savings; with regard to implementing our new operating structure, the intent to simplify, streamline and increase accountability to generate reliable growth for Kraft and the number of positions we are eliminating; the number of positions we will eliminate in connection with severance initiatives; our belief that the ultimate resolution of existing environmental remediation actions and our compliance with environmental laws and regulations will not have a material effect on our financial results; that the assumptions we use in recording our pension and postretirement plan obligations are reasonable; our health care cost trend rate assumption; the date we intend to adopt the measurement provisions of SFAS No. 158 and that it will not have a significant impact; our anticipated decrease in 2008 pre-tax U.S. and non-U.S. pension and postretirement expense and that our assumptions will not change further; our belief regarding our liquidity; our growth strategy regarding acquisitions and divestitures; our expectation for, and how we intend to fund, 2008 capital expenditures; our intent to repay borrowings under

the Danone Biscuit facility from the proceeds of the issuance of investment grade bonds or other securities; our expectation to continue to meet financial covenants under our revolving credit facility; the amount of our expected payment for tax liabilities; our expectation to complete the current authorization under our share repurchase program before the authorization expires in March 2009; and our 2008 Outlook, specifically diluted EPS, costs, savings and spending related to our Restructuring Program; and our 2008 effective tax rate.

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

Item 1A. Risk Factors.

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

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

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

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

Our brand image may be challenged to compete against lower-priced private label items, particularly in times of economic downturns.

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

Consolidation of retail customers may affect our operating margins and profitability. In addition, the loss of a significant customer could significantly affect our results of operations.

Retail customers, such as supermarkets, warehouse clubs and food distributors, continue to consolidate in the U.S., the EU and our other major markets. These consolidations have produced large, sophisticated customers with increased buying power. These larger retailers are capable of operating with reduced inventories, they can resist price increases, and they demand lower pricing, increased promotional programs and specifically tailored products. They also may use shelf space currently used for our products for their own private label products. If we fail to respond to these trends, our volume growth could slow or we may need to lower our prices or increase our investments in marketing, any of which could adversely affect our profitability.

Our largest customer, Wal-Mart Stores, Inc., accounted for approximately 15% of our net revenues during 2007. During 2007, our five largest customers accounted for approximately 28% of our net revenues. The loss of any one of our top customers could have a material adverse affect on our sales.

Continuing increases in commodity costs may affect our profitability.

We are a major purchaser of commodities including, dairy, coffee, cocoa, wheat, corn products, soybean and vegetable oils, nuts, meat products, and sugar and other sweeteners. We also use significant quantities of glass, plastic and cardboard to package our products, and natural gas for our factories and warehouses. Price volatility for commodities we purchase has increased due to conditions outside of our control, including fluctuations in commodities markets, currency fluctuations and changes in governmental agricultural programs. If we are unable to increase our prices to offset increased commodity costs or achieve cost efficiencies in manufacturing and distribution, our profitability could suffer.

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

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

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

Our international operations are subject to additional risks.

Approximately 42% of our 2007 sales and approximately 39% of our 2006 sales were generated in foreign countries. Our international operations are subject to inherent risks, including fluctuations in currency values, unpredictability of foreign currency exchange controls, discriminatory fiscal policies, unexpected changes in local regulations and laws in foreign countries and the uncertainty of enforcement of remedies in foreign jurisdictions. In addition, international sales are subject to risks related to imposition of tariffs, quotas, trade barriers and other similar restrictions. Moreover, economic changes, terrorist activity, political unrest and other economic or political uncertainties may interrupt or otherwise negatively affect our business. All of these risks could result in increased costs or decreased revenues, either of which could adversely affect our profitability.

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

From time to time, we evaluate acquisition candidates that would strategically fit our business objectives. If we are unable to complete, successfully integrate and develop these acquisition candidates to realize revenue growth and cost savings, our

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

Product recalls, injuries caused by products or other legal claims could affect our reputation and profitability.

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

We operate in a highly regulated environment.

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

Changes in our credit ratings could increase our financing costs.

We maintain revolving credit facilities that historically have been used to support the issuance of commercial paper. A downgrade in our credit ratings, particularly our short-term debt rating, would likely reduce the amount of commercial paper we could issue or it could raise our borrowing costs, or both.

Volatility in the equity markets or interest rates could substantially increase our pension costs.

At the end of 2007, the projected benefit obligation of our defined benefit pension plans was $10.2 billion and assets were $11.0 billion. The difference between plan obligations and assets, or the funded status of the plans, significantly affects the net periodic benefit costs of our pension plans and the ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, investment returns and the market value of plan assets can (i) affect the level of plan funding; (ii) cause volatility in the net periodic pension cost; and (iii) increase our future funding requirements. In addition, if we divest certain businesses, we may be required to increase future contributions to the benefit plans and the related net periodic pension cost could increase. A significant increase in our funding requirements could have a negative impact on our results of operations and profitability.

Item 1B. Unresolved Staff Comments.

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

Item 2. Properties.

We have 187 manufacturing and processing facilities worldwide. In North America, we have 64 facilities, and outside of North America, we have 123 facilities located in 44 countries. These manufacturing and processing facilities are located throughout the following territories:

Territory	Number of Facilities
U.S.	51
Canada	13
European Union	67
Eastern Europe, Middle East and Africa	17
Latin America	20
Asia Pacific	19
Total	187

We own 181 and lease six of these manufacturing and processing facilities. We maintain all of our plants and properties in good condition, and we believe they are suitable and adequate for our present needs.

We have publicly announced, but not yet completed the sale or closure of five facilities in the U.S., three facilities in Canada, six facilities in Europe, one facility in Asia Pacific and two facilities in Latin America. The numbers above include these facilities.

As of December 31, 2007, our distribution facilities consisted of 313 distribution centers and depots worldwide. In North America, we had 302 distribution centers and depots, more than 75% of which support our direct-store-delivery systems. Outside North America, we had eleven distribution centers in seven countries. We own 39 of these distribution centers and three of these depots, and we lease 128 of these distribution centers and 143 of these depots. We believe that all of these facilities are in good condition and have sufficient capacity to meet our distribution needs in the near future.

In January 2004, we announced a three-year Restructuring Program and in January 2006, extended it through 2008. As part of the Restructuring Program, we anticipate closing up to 35 facilities. We announced the closure of three plants during 2007; we have now announced the closure of 30 facilities since the program began in 2004.

Item 3. Legal Proceedings.

On August 27, 2007, The Proctor & Gamble Company (P&G) filed suit in the U.S. District Court for the Northern District of California against our wholly-owned subsidiary, Kraft Foods Global, Inc. (KFGI), for patent infringement. P&G alleges that the plastic packaging for our Maxwell House® brand coffee infringes their U.S. Patent Number 7,169,418, entitled Packaging System to Provide Fresh Packed Coffee (P&G Patent). P&G seeks, among other things, preliminary and permanent injunctions enjoining our use of the alleged infringing plastic packaging, and unspecified damages. The P&G Patent is, at the same time, the subject of a pending *inter partes* reexamination proceeding before the U.S. Patent and Trademark Office, which could either invalidate, or validate, the patent, in its entirety or in part. For this reason, KFGI filed a Motion to Stay the patent infringement suit on grounds that the outcome of the *inter partes* reexamination could dispose of all or some of the asserted claims. On October 11, 2007, the Court granted KFGI s Motion to Stay. P&G filed an appeal of the stay in the Court of Appeals for the Federal Circuit on November 9, 2007, and KFGI then filed a motion to dismiss P&G s appeal on December 17, 2007. A decision on the motion is pending at this time. No further rulings are expected in this patent infringement suit pending the outcome of the *inter partes* reexamination.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.
The information called for under Part II Items 5(a) and (b) are incorporated by reference to footnote 17, *Quarterly Financial Data (Unaudited)*, which is included within Item 8.

(c) Issuer Purchases of Equity Securities during the Quarter ended December 31, 2007.

Our share repurchase program activity for the three months ended December 31, 2007 was:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)(2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1-October 31, 2007	-	$ -	90,861,632	$ 2,000,000,828
November 1-November 30, 2007	9,140,000	$ 33.22	100,001,632	$ 1,696,403,160
December 1-December 31, 2007	5,655,171	$ 34.73	105,656,803	$ 1,500,000,842
Pursuant to Publicly Announced Plans or Programs	14,795,171			
October 1-October 31, 2007 (3)	10,222	$ 34.37		
November 1-November 30, 2007 (3)	1,311	$ 33.58		
December 1-December 31, 2007 (3)	-	$ -		
For the Quarter Ended December 31, 2007	14,806,704	$ -		

(1) Immediately following the Distribution, we announced a new $5.0 billion, two-year share repurchase program. We are not obligated to acquire any amount of our Common Stock and may suspend the program at our discretion.
(2) Aggregate number of shares repurchased under the share repurchase program as of the end of the period presented.
(3) Shares tendered to us by employees who vested in restricted stock and rights, and used shares to pay the related taxes. As such, these are non-cash transactions.

The principal stock exchange on which our Common Stock is listed is the NYSE. At January 31, 2008, there were approximately 87,000 holders of record of our Common Stock.

(d) Performance Graph.

Comparison of Five-Year Cumulative Total Return

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

Date	Kraft Foods	S&P 500	Performance Peer Group
December 2002	$ 100.00	$ 100.00	$ 100.00
December 2003	$ 84.57	$ 128.63	$ 115.19
December 2004	$ 95.68	$ 142.59	$ 122.98
December 2005	$ 77.86	$ 149.58	$ 129.36
December 2006	$ 101.57	$ 173.15	$ 155.10
December 2007	$ 95.75	$ 182.64	$ 185.94

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

The 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 Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

Item 6. Selected Financial Data.
Kraft Foods Inc.

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

	2007	2006	2005	2004	2003
Summary of Operations:					
Net revenues	$ 37,241	$ 34,356	$ 34,113	$ 32,168	$ 30,498
Cost of sales	24,651	21,940	21,845	20,281	18,531
Operating income	4,331	4,521	4,749	4,609	5,856
Interest and other debt expense, net	604	510	636	666	665
Earnings from continuing operations, before income taxes	3,727	4,011	4,113	3,943	5,191
Pre-tax profit margin from continuing operations	10.0%	11.7%	12.1%	12.3%	17.0%
Provision for income taxes	1,137	951	1,209	1,274	1,812
(Loss)/earnings from discontinued operations, net of income taxes	-	-	(272)	(4)	97
Net earnings	2,590	3,060	2,632	2,665	3,476
Basic EPS:					
Continuing operations	1.64	1.86	1.72	1.56	1.95
Discontinued operations	-	-	(0.16)	-	0.06
Net earnings	1.64	1.86	1.56	1.56	2.01
Diluted EPS:					
Continuing operations	1.62	1.85	1.72	1.55	1.95
Discontinued operations	-	-	(0.17)	-	0.06
Net earnings	1.62	1.85	1.55	1.55	2.01
Dividends declared per share	1.04	0.96	0.87	0.77	0.66
Weighted average shares (millions) - Basic	1,575	1,643	1,684	1,709	1,727
Weighted average shares (millions) - Diluted	1,594	1,655	1,693	1,714	1,728
Capital expenditures	1,241	1,169	1,171	1,006	1,085
Depreciation	873	884	869	868	804
Property, plant and equipment, net	10,778	9,693	9,817	9,985	10,155
Inventories	4,096	3,506	3,343	3,447	3,343
Total assets	67,993	55,574	57,628	59,928	59,285
Long-term debt	12,902	7,081	8,475	9,723	11,591
Total debt	21,009	10,821	11,200	12,518	13,462
Shareholders equity	27,295	28,555	29,593	29,911	28,530
Common dividends declared as a % of Basic EPS	63.4%	51.6%	55.8%	49.4%	32.8%
Common dividends declared as a % of Diluted EPS	64.2%	51.9%	56.1%	49.7%	32.8%
Book value per common share outstanding	17.79	17.45	17.72	17.54	16.57
Market price per Common Stock share - high/low	37.20-29.95	36.67-27.44	35.65-27.88	36.06-29.45	39.40-26.35
Closing price of Common Stock at year end	32.63	35.70	28.17	35.61	32.22
Price/earnings ratio at year end - Basic	20	19	18	23	16
Price/earnings ratio at year end - Diluted	20	19	18	23	16
Number of common shares outstanding at year end (millions)	1,534	1,636	1,670	1,705	1,722
Number of employees	103,000	90,000	94,000	98,000	106,000

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation.
The following discussions should be read in conjunction with the other sections of this report, including the consolidated financial statements and related notes contained in Item 8 of this Form 10-K.

Description of the Company

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

Kraft Spin-Off from Altria:

In the first quarter of 2007, Altria Group, Inc. (Altria) spun off its remaining interest (89.0%) in Kraft on a pro rata basis to Altria stockholders in a tax-free transaction. Effective as of the close of business on March 30, 2007, all Kraft shares owned by Altria were distributed to Altria s stockholders, and our separation from Altria was completed (the Distribution). Before the Distribution, Altria converted all of its Class B shares of Kraft common stock into Class A shares of Kraft common stock. The Distribution ratio was calculated by dividing the number of shares of Kraft Common Stock held by Altria by the number of Altria shares outstanding on the record date, March 16, 2007. The distribution ratio was 0.692024 shares of Kraft Common Stock for every share of Altria common stock outstanding. Following the Distribution, we only have Class A common stock outstanding.

Executive Summary

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

Net revenues in 2007 increased 8.4% to $37.2 billion. Net revenues in 2006 increased 0.7% to $34.4 billion.

Diluted EPS in 2007 decreased 12.4% to $1.62. Diluted EPS in 2006 increased 19.4% to $1.85.

We recorded Restructuring Program charges of $459 million during 2007, $673 million during 2006 and $297 million during 2005.

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

On November 30, 2007, we acquired the global biscuit business of Groupe Danone S.A. for approximately 5.1 billion (approximately $7.6 billion) in cash subject to purchase price adjustments. We will report the results from operations on a one month lag; as such, there was no impact on our operating results in 2007.

On November 15, 2007, we announced a definitive agreement to merge our *Post* cereals business into Ralcorp Holdings, Inc. The transaction is subject to customary closing conditions, including anti-trust approval, IRS tax-free ruling and Ralcorp Holdings, Inc. shareholder approvals. To date, the anti-trust approval has been obtained. We expect this transaction to be completed in mid-2008.

Immediately following the Distribution, we announced a new $5.0 billion, two-year share repurchase program. It replaced our previous $2.0 billion share repurchase program. During 2007, we repurchased 110.1 million shares of our Common Stock for approximately $3.6 billion under our share repurchase programs.

In August 2007, we issued $3.5 billion of senior unsecured notes, and in December 2007, we issued an additional $3.0 billion of senior unsecured notes. We used the net proceeds (approximately $3,462 million in August and $2,966 million in December) for general corporate purposes, including the repayment of outstanding commercial paper and a portion of the bridge facility used to

fund our Danone Biscuit acquisition.

In the third quarter of 2007, our Board of Directors approved an 8.0% increase in the current quarterly dividend rate to $0.27 per share on our Common Stock. As a result, our current annualized dividend rate is $1.08 per share of Common Stock.

Discussion and Analysis

Growth Strategy

At the Consumer Analyst Group of New York (CAGNY) Conference in February 2008, we presented the progress we made in 2007 on our long-term growth strategy and our plans for the second year of our three-year plan to return Kraft to reliable growth. Our four growth strategies and 2007 developments are summarized below.

Rewire the organization for growth - We made significant changes to our incentive systems, senior management team and organizational structure. Our annual bonuses and long-term incentive plans are now tied to measures that our people can control and that will increase shareholder value such as operating income growth. We also complemented our veteran Kraft management team by adding new talent. In February 2008, we announced the implementation of our new operating structure built on three core elements: business units now have full P&L accountability and are staffed accordingly; shared services that leverage the scale of our global portfolio; and a streamlined corporate staff.

Reframe our categories - We are utilizing the concept of the Growth Diamond to focus on four key consumer trends driving category growth: Snacking; Quick Meals; Health and Wellness; and Premium.

We also reframed our portfolio through acquisitions and divestitures. In 2007, we divested our flavored water and juice brand assets and related trademarks, including *Veryfine* and *Fruit2O*, and acquired the Danone Biscuit business. These changes will result in increased revenues being derived from Kraft International. We also announced the planned merger of the Post Business into Ralcorp, which we anticipate will be completed in mid-2008.

Exploit our sales capabilities - We are using our large scale as a competitive advantage as we better leverage our portfolio. Our Wall-to-Wall initiative for Kraft North America combined the executional benefits of direct store delivery used in our Biscuit business unit with the economics of our warehouse delivery to drive faster growth. Wall-to-Wall will increase the frequency of our retail visits and build stronger, ongoing relationships with store management allowing us to: reduce out-of-stocks; get new items to the shelves more quickly; and increase the number and quality of displays. We plan to complete the full rollout in North America by mid-2008.

We plan to build profitable scale by expanding our distribution reach in countries with rapidly growing demand. The acquisition of Danone Biscuit is part of our efforts to expand our reach in developing markets.

Drive down costs without compromising quality - We plan to contain administrative overhead costs while investing in quality, R&D, marketing, sales and other capabilities that support growth. We are incrementally investing $100 million into quality upgrades in 2008. Additionally, we anticipate completing our Restructuring Program in 2008 with total annualized savings reaching $1.2 billion by the end of 2009.

Summary of Financial Results

The following tables show the significant changes in our net earnings and diluted EPS between 2007 and 2006, and between 2006 and 2005 (in millions, except per share data):

	Earnings from Continuing Operations	Diluted EPS from Continuing Operations
For the year ended December 31, 2006	$ 3,060	$ 1.85
2007 Losses on divestitures, net	(3)	-
2006 Gains on divestitures, net	(31)	(0.02)
2006 Gain on redemption of United Biscuits investment	(148)	(0.09)
2007 Restructuring Program	(303)	(0.19)
2006 Restructuring Program	444	0.27
European Union segment reorganization	(7)	-
2007 Asset impairment charges	(52)	(0.03)
2006 Asset impairment charges	284	0.17
Change in effective tax rate	13	0.01
Interest from tax reserve transfers from Altria Group, Inc.	49	0.03
2006 favorable resolution of the Altria Group, Inc. 1996-1999 IRS Tax Audit	(405)	(0.24)
Change in shares outstanding	-	0.07
Decrease in operations	(311)	(0.21)
For the year ended December 31, 2007	$ 2,590	$ 1.62

	Earnings from Continuing Operations	Diluted EPS from Continuing Operations
For the year ended December 31, 2005	$ 2,904	$ 1.72
2006 Gains on divestitures, net	31	0.02
2005 Gains on divestitures, net	(65)	(0.04)
2006 Gain on redemption of United Biscuits investment	148	0.09
2006 Restructuring Program	(444)	(0.27)
2005 Restructuring Program	199	0.12
2006 Asset impairment charges	(284)	(0.17)
2005 Asset impairment charges	140	0.08
Change in effective tax rate	(66)	(0.04)
2006 favorable resolution of the Altria Group, Inc. 1996-1999 IRS Tax Audit	405	0.24
Change in shares outstanding	-	0.04
Increase in operations	92	0.06
For the year ended December 31, 2006	$ 3,060	$ 1.85

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

Acquisitions and Divestitures

Danone Biscuit:

On November 30, 2007, we acquired the global biscuit business of Groupe Danone S.A. (Danone Biscuit) for 5.1 billion (approximately $7.6 billion) in cash subject to purchase price adjustments. On October 12, 2007, we entered into a 364-day bridge facility agreement, and at closing, we borrowed 5.1 billion under that facility in order to finance the acquisition. The acquisition included 32 manufacturing facilities and approximately 14,000 employees. Danone Biscuit generated global revenues of approximately $2.8 billion during 2007. Danone Biscuit will report results from operations on a one month lag; as such, there was no impact on our operating results in 2007. On a proforma basis, Danone

Biscuit s net earnings for the year ended December 31, 2007 would have been insignificant to Kraft.

We acquired assets consisting primarily of goodwill of $5,239 million (which will not be deductible for statutory tax purposes), intangible assets of $2,196 million (substantially all of which are expected to be indefinite lived), property, plant and equipment of $561 million, receivables of $759 million and inventories of $198 million. These amounts represent the preliminary allocation of purchase price and are subject to revision when appraisals are finalized, which will occur during 2008.

United Biscuits:

In 2006, we acquired the Spanish and Portuguese operations of United Biscuits (UB) for approximately $1.1 billion. The non-cash acquisition was financed by our assumption of $541 million of debt issued by the acquired business immediately prior to the acquisition, as well as $530 million of value for the redemption of our outstanding investment in UB, primarily deep-discount securities. The redemption of our outstanding investment resulted in a gain on closing of approximately $251 million, or $0.09 per diluted share, in the third quarter of 2006. As part of the transaction, we also recovered the rights to all Nabisco trademarks in the European Union, Eastern Europe, the Middle East and Africa, which UB had held since 2000. The Spanish and Portuguese operations of UB include its biscuits, dry desserts and canned meats, tomato and fruit juice businesses. The operations also include seven manufacturing facilities and 1,300 employees. These businesses contributed net revenues of approximately $466 million for the year ended December 31, 2007 and approximately $111 million for the period from September 2006 to December 31, 2006.

We acquired assets consisting primarily of goodwill of $730 million, intangible assets of $217 million, property, plant and equipment of $149 million, receivables of $101 million and inventories of $34 million.

Post Distribution:

On November 15, 2007, we announced a definitive agreement to merge our *Post* cereals business (Post Business) into Ralcorp Holdings, Inc. (Ralcorp) after a tax-free distribution to our shareholders (the Post Distribution). We have signed an agreement with Ralcorp to execute the Post Distribution by means of a Reverse-Morris Trust transaction. This transaction is subject to customary closing conditions, including anti-trust approval, IRS tax-free ruling and Ralcorp shareholder approvals. To date, the anti-trust approval has been obtained. We anticipate that this transaction will be completed in mid-2008.

The Post Business had net revenues of approximately $1.1 billion in 2007, and includes such cereals as *Honey Bunches of Oats*, *Pebbles*, *Shredded Wheat*, *Selects*, *Grape Nuts* and *Honeycomb*. The brands in this transaction are distributed primarily in North America. In addition to the *Post* brands, the transaction includes four manufacturing facilities and certain manufacturing equipment. We anticipate that approximately 1,250 employees will join Ralcorp following the consummation of the transaction.

Our shareholders will receive at least 30.3 million shares of Ralcorp stock after the Post Distribution and the subsequent merger of the Post Business with Ralcorp. Based on market conditions prior to closing, we will determine whether the shares will be distributed in a spin-off or a split-off transaction. Either type of transaction is expected to be tax-free to our U.S. shareholders. In a spin-off transaction, our shareholders would receive a pro rata number of Ralcorp shares. In a split-off transaction, our shareholders would have the option to exchange their Kraft shares and receive Ralcorp shares at closing, resulting in a reduction in the number of shares of our Common Stock outstanding. In addition, Kraft will receive approximately $960 million of cash-equivalent value, which will be used to repay debt.

Other:

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

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

In 2005, we received $238 million in proceeds, and recorded pre-tax gains of $108 million, or $0.04 per diluted share, on the divestitures of our fruit snacks assets, our U.K. desserts assets, our U.S. yogurt assets, a small operation in Colombia, a minor trademark in Mexico and a small equity investment in Turkey.

We also sold substantially all of our sugar confectionery business in June 2005 for pre-tax proceeds of approximately $1.4 billion. The sale included the *Life Savers*, *Creme Savers*, *Altoids*, *Trolli* and *Sugus* brands. We reflected the results of our

sugar confectionery business prior to the closing date as discontinued operations on the consolidated statements of earnings. We recorded a loss on sale of discontinued operations of $272 million in 2005, related largely to taxes on the transaction.

These (gains) / losses on divestitures were included in segment operating income as follows:

	For the Years Ended December 31, (in millions)		
	2007	2006	2005
North America Beverages	$ 5	$ 95	$ -
North America Cheese & Foodservice	-	8	(1)
North America Convenient Meals	-	(226)	-
North America Grocery	-	1	2
North America Snacks & Cereals	(12)	5	-
European Union	-	-	(114)
Developing Markets (1)	(8)	-	5
Gains on divestitures, net	$ (15)	$ (117)	$ (108)

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

These gains and losses on divestitures do not reflect the related asset impairment charges discussed below.

The aggregate operating results of the acquisitions and divestitures discussed above, other than the UB acquisition, and the divestiture of the sugar confectionery business, were not material to our financial statements in any of the periods presented.

Restructuring Program

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

- incurring approximately $2.8 billion in pre-tax charges reflecting asset disposals, severance and implementation costs;
- closing at least 35 facilities and eliminating approximately 13,500 positions;
- using cash to pay for approximately $1.7 billion of the $2.8 billion in charges; and
- cumulative, annualized savings reaching $1.2 billion by the end of 2009.

In February 2008, we announced the implementation of our new operating structure built on three core elements: accountable business units; shared services that leverage the scale of our global portfolio; and a streamlined corporate staff. Within our new structure, business units now have full P&L accountability and are staffed accordingly. This also ensures that we are putting our resources closer to where decisions are made that affect our consumers. Our corporate and shared service functions are streamlining their organizations and focusing them on core activities that can more efficiently support the goals of the business units. The intent was to simplify, streamline and increase accountability, with the ultimate goal of generating reliable growth for Kraft. As a result, we have eliminated approximately 700 positions as we streamline our headquarters functions.

We incurred charges under the Restructuring Program of $459 million in 2007, or $0.19 per diluted share; $673 million in 2006, or $0.27 per diluted share; and $297 million in 2005, or $0.12 per diluted share. Since the inception of the Restructuring Program, we have incurred $2.1 billion in charges, and paid cash for $1.1 billion. We announced the closure of three plants during 2007; we have now announced the closure of 30 facilities since the program began in 2004. In connection with our severance initiatives, we have eliminated approximately 11,000 positions as of December 31, 2007; at that time we had announced the elimination of an additional 400 positions.

Under the Restructuring Program, we recorded asset impairment and exit costs of $332 million during 2007, $578 million during 2006 and $210 million during 2005. We recorded implementation costs of $127 million in 2007, $95 million in 2006 and $87 million in 2005. Implementation costs are directly attributable to exit costs; however they do not qualify for treatment under Statement of Financial Accounting Standards (SFAS)

No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. These costs primarily include the discontinuance of certain product lines, incremental expenses related to the closure of facilities and the Electronic Data Systems (EDS) transition discussed in Note 2 to the consolidated financial statements.

Management believes the disclosure of implementation charges provides readers of our financial statements greater transparency to the total costs of our Restructuring Program.

In addition, we expect to spend approximately $550 million in capital to implement the Restructuring Program. We have spent $387 million in capital since the inception of the Restructuring Program, including $142 million spent in 2007. Cumulative annualized cost savings resulting from the Restructuring Program were approximately $540 million through 2006. Incremental cost savings totaled approximately $243 million in 2007, resulting in cumulative annualized savings under the Restructuring Program of approximately $783 million to date. Refer to Note 2, *Asset Impairment, Exit and Implementation Costs*, for further details of our Restructuring Program.

European Union Segment Reorganization

We are also in the process of reorganizing our European Union segment to function on a pan-European centralized category management and value chain model. After the reorganization is complete, the European Principal Company (EPC) will manage the European Union segment categories centrally and make decisions for all aspects of the value chain, except for sales and distribution. The European subsidiaries will execute sales and distribution locally, and the local production companies will act as toll manufacturers on behalf of the EPC. The EPC legal entity has already been incorporated as Kraft Foods Europe GmbH in Zurich, Switzerland.

As part of this reorganization, we incurred $21 million of restructuring costs, $24 million of implementation costs and $10 million of other non-recurring costs during 2007, and incurred $7 million of restructuring costs during 2006. Restructuring and implementation costs are recorded as part of our overall Restructuring Program. Other costs relating to our European Union segment reorganization are recorded as marketing, administration and research costs. Management believes the disclosure of implementation and other non-recurring charges provides readers of our financial statements greater transparency to the total costs of our European Union segment reorganization.

Asset Impairment Charges

During the first and fourth quarters of 2007, we completed our annual review of goodwill and intangible assets. No impairments resulted from these reviews. Additionally, in 2007, we sold our flavored water and juice brand assets and related trademarks, and incurred an asset impairment charge of $120 million, or $0.03 per diluted share, in recognition of the sale. The charge, which included the write-off of the associated goodwill of $3 million, intangible assets of $70 million and property, plant and equipment of $47 million, was recorded as asset impairment and exit costs on the consolidated statement of earnings.

We recorded aggregate asset impairment charges in 2006 amounting to $424 million, or $0.17 per diluted share. During our 2006 annual review of goodwill and intangible assets we recorded a $24 million non-cash charge for impairment of biscuits assets in Egypt and hot cereal assets in the U.S. In addition, we incurred an asset impairment charge of $69 million in 2006 in anticipation of the 2007 sale of our hot cereal assets and trademarks. The charge included the write-off of a portion of the associated goodwill of $15 million, intangible assets of $52 million and property, plant and equipment of $2 million. No further charges were incurred in 2007 related to this sale. Additionally, in 2006, we incurred an asset impairment charge of $86 million in recognition of the pet snacks brand and assets sale. The charge included the write-off of a portion of the associated goodwill of $25 million, intangible assets of $55 million and property, plant and equipment of $6 million. Also during 2006, we re-evaluated the business model for our *Tassimo* hot beverage system due to lagging revenues. This evaluation resulted in a $245 million non-cash asset impairment charge from lower utilization of existing manufacturing capacity. We recorded these charges as asset impairment and exit costs on the consolidated statement of earnings.

We recorded aggregate asset impairment charges in 2005 amounting to $269 million, or $0.08 per diluted share. During the first quarter of 2005, we completed our annual review of goodwill and intangible assets. No impairments resulted from this review. In addition, we sold our fruit snacks assets during 2005 and incurred an asset impairment charge of $93 million in recognition of the sale. We also incurred asset impairment charges of $176 million in 2005 in anticipation of the 2006 sales of certain assets in Canada and a small biscuit brand in the U.S. These aggregate charges, which included the write-off of the associated goodwill of $13 million, intangible assets of $118 million and asset write-downs of $138 million were recorded as asset impairment and exit costs on the consolidated statement of earnings. Refer to Note 2, *Asset Impairment, Exit and Implementation Costs*, for further asset impairment details.

Provision for Income Taxes

Our tax rate was 30.5% in 2007, 23.7% in 2006 and 29.4% in 2005. Our 2007 effective tax rate includes $184 million in favorable tax rate items, primarily including the effects of dividend repatriation benefits, foreign earnings taxed below the U.S. federal statutory tax rate, foreign joint venture earnings, and the effect on foreign deferred taxes from lower foreign tax rates enacted in 2007, partially offset by other foreign tax expense items. The 2007 tax rate also benefited from an increased domestic manufacturing deduction and the divestiture of our flavored water and juice brand assets and related trademarks. These benefits were partially offset by state tax expense.

During 2006, the IRS concluded its examination of Altria s consolidated tax returns for the years 1996 through 1999. The IRS issued a final Revenue Agents Report on March 15, 2006. Consequently, Altria reimbursed us $337 million for federal tax reserves that were no longer necessary and $46 million for interest ($29 million net of tax). We also recognized net state tax reversals of $39 million, for a total tax provision benefit of $376 million ($337 million federal plus $39 million state). The total benefit to net earnings that we recognized in 2006 due to the IRS settlement was $405 million, or $0.24 per diluted share. The 2006 tax rate also benefited from the resolution of various tax items in our foreign operations, dividend repatriation benefits, joint venture earnings, and lower foreign tax rates enacted in 2006 (primarily Canada). These benefits were partially offset by state tax expense and by the tax costs associated with our 2006 divestitures.

The 2005 effective tax rate includes tax benefits of $117 million from dividend repatriation including the impact from the American Jobs Creation Act of 2004, the resolution of outstanding items in our international operations, and the settlement of an outstanding U.S. tax claim. The 2005 tax rate also benefited from our 2005 divestitures, which was partially offset by state tax expense.

As discussed in Note 1, *Summary of Significant Accounting Policies*, Altria transferred our federal tax contingencies of $375 million to our balance sheet and related interest income of $77 million, or $0.03 per diluted share, as a result of the Distribution. Following the Distribution, we are no longer a member of the Altria consolidated tax return group, and we will file our own federal consolidated income tax return. We continue to assess opportunities to mitigate the loss of tax benefits as a result of filing separately, and currently estimate the annual amount of lost tax benefits to be in the range of $50 million to $75 million, as compared to 2007.

Consolidated Results of Operations

The following discussion compares our consolidated operating results for 2007 with 2006, and for 2006 with 2005.

Many factors impact the timing of sales to our customers. These factors include, among others, the timing of holidays and other annual or special events, seasonality, significant weather conditions, timing of our own or customer incentive programs and pricing actions, customer inventory programs and general economic conditions. Our domestic operating subsidiaries report year-end results as of the Saturday closest to the end of each year, and our international operating subsidiaries generally report year-end results two weeks prior to the Saturday closest to the end of each year. This resulted in 53 weeks of operating results in our consolidated statement of earnings for the year ended December 31, 2005, versus 52 weeks for the years ended December 31, 2007 and 2006.

	For the Years Ended December 31,			
	2007	2006	$ change	% change
	(in millions, except per share data)			
Net revenues	$ 37,241	$ 34,356	$ 2,885	8.4%
Operating income	4,331	4,521	(190)	(4.2%)
Net earnings	2,590	3,060	(470)	(15.4%)
Diluted earnings per share	$ 1.62	$ 1.85	(0.23)	(12.4%)

	For the Years Ended December 31, 2006	2005	$ change	% change
	(in millions, except per share data)			
Net revenues	$ 34,356	$ 34,113	$ 243	0.7%
Operating income	4,521	4,749	(228)	(4.8%)
Earnings from continuing operations	3,060	2,904	156	5.4%
Loss from discontinued operations, net of income taxes	-	(272)	272	(100.0%)
Net earnings	3,060	2,632	428	16.3%
Diluted earnings per share	$ 1.85	$ 1.55	0.30	19.4%

2007 compared with 2006:

Net Revenues - Net revenues increased $2,885 million (8.4%), due primarily to favorable currency (3.2 pp), favorable mix (1.8 pp), higher volume (1.7 pp), higher net pricing (1.6 pp) and the impact of acquisitions (1.0 pp), partially offset by the impact of divestitures (0.9 pp). Currency fluctuations increased net revenues by $1,070 million, due primarily to the continuing weakness of the U.S. dollar against the euro and Canadian dollar. Total volume increased 1.3% (net of 0.4 pp due to divestitures offset by acquisitions), driven by higher shipments in the European Union (due to the UB acquisition) and Developing Markets, partially offset by lower volume in all North American segments due primarily to the impact of divestitures, declines in certain grocery products and the discontinuation of select lower margin foodservice products.

Operating Income - Operating income declined $190 million (4.2%), due primarily to higher total manufacturing costs, including higher commodity costs, net of the impact of higher pricing ($533 million), higher marketing, administration and research costs ($338 million, including higher marketing support), an asset impairment charge related to our flavored water and juice brand assets and related trademarks ($120 million), the impact of divestitures ($105 million), the prior year $251 million gain on the redemption of our UB investment, and the prior year $226 million gain on the divested rice assets and trademarks. These items were partially offset by favorable volume/mix ($475 million), 2006 asset impairment charges related to the divested pet snacks and hot cereal assets and trademarks, *Tassimo* hot beverage system and biscuits assets in Egypt (totaling $424 million), lower Restructuring Program charges ($214 million) and the 2006 loss on the sale of a U.S. coffee plant ($95 million). Currency fluctuations increased operating income by $125 million due primarily to the continuing weakness of the U.S. dollar against the euro and Canadian dollar.

Net Earnings - Net earnings of $2,590 million decreased by $470 million (15.4%), due primarily to operating income declines, a favorable tax rate in 2006 from a significant tax resolution, and higher interest expense.

Earnings per Share - Diluted earnings per share were $1.62, down 12.4% from $1.85 in 2006.

In 2007, we incurred $0.19 per diluted share ($459 million before taxes) in Restructuring Program costs as compared to $0.27 per diluted share ($673 million before taxes) in 2006. Additionally, in 2007, we incurred $0.03 per diluted share ($120 million before taxes) in asset impairment charges as compared to $0.17 per diluted share ($424 million before taxes) in 2006. Due to the Distribution, we recognized interest income of $0.03 per diluted share ($77 million before taxes) from tax reserve transfers from Altria.

In 2006, we benefited from favorable federal and state tax resolutions amounting to $405 million, or $0.24 per diluted share. Additionally, in 2006, we benefited from a $0.09 per diluted share gain on the redemption of our UB investment and $0.02 per diluted share net gain on divestitures. Lastly, we benefited $.07 per diluted share due to the 2007 share repurchase activity.

2006 compared with 2005:

Our 2005 results included 53 weeks of operating results compared with 52 weeks in 2006. We estimate that this extra week positively impacted net revenues and operating income by approximately 2% in 2005 (approximately $625 million and $100 million, respectively).

Net Revenues - Net revenues increased $243 million (0.7%), due primarily to favorable volume/mix (0.7pp, including the 53rd week in 2005), higher net pricing (0.7pp), favorable currency (0.5 pp) and the impact of acquisitions (0.3pp), partially offset by the impact of divestitures (1.5pp). Currency fluctuations increased net revenues by $145 million due primarily to the weakness of the U.S. dollar against the Canadian dollar and the Brazilian real, partially offset by the strength of the U.S. dollar against the euro. Volume decreased 961 million pounds (5.0%), including the 53rd week in 2005 results. Excluding the impact of divestitures, the acquisition of UB and the 53rd week of shipments in 2005, volume decreased 0.4%, due primarily to the discontinuation of certain ready-to-drink and foodservice product lines and lower grocery shipments in North America, partially offset by higher shipments of meat, biscuits and cheese in North America and higher shipments in Developing Markets.

Operating Income - Operating income declined $228 million (4.8%), due primarily to higher Restructuring Program costs ($376 million), higher asset impairment charges ($155 million), 2005 net gains on divestitures ($108 million), higher marketing, administrative and research costs ($78 million), and the impact of divestitures ($71 million). These impacts were partially offset by the 2006 gain on redemption of our UB investment ($251 million), the 2006 net gains on divestitures ($117 million), higher pricing, net of increased promotional spending and higher input costs ($72 million), lower fixed manufacturing costs ($40 million), favorable volume/mix ($32 million, including the 53rd week in 2005) and the acquisition of UB ($18 million). Currency fluctuations increased operating income by $29 million due primarily to the weakness of the U.S. dollar against the Canadian dollar and the Brazilian real, partially offset by the strength of the U.S. dollar against the euro.

Earnings from Continuing Operations - Earnings from continuing operations of $3,060 million increased $156 million (5.4%), due primarily to a favorable tax rate resulting from a significant tax resolution in 2006 and lower interest expense, partially offset by lower operating income.

Loss from discontinued operations - In June 2005, we sold substantially all of our sugar confectionery business for proceeds of approximately $1.4 billion. We reflected the results of our sugar confectionery business prior to the closing date as discontinued operations on the consolidated statements of earnings. We recorded a loss on sale of discontinued operations of $272 million in 2005, related largely to taxes on the transaction.

Net Earnings - Net earnings of $3,060 million increased $428 million (16.3%) due to increased earnings from continuing operations and the 2005 loss from discontinued operations.

Earnings per Share - Diluted earnings per share were $1.85, up 19.4% from $1.55 in 2005.

In 2006, we incurred $0.27 per diluted share ($673 million before taxes) in Restructuring Program costs as compared to $0.12 per diluted share ($297 million before taxes) in 2005. Additionally, in 2006, we incurred $0.17 per diluted share ($424 million before taxes) in asset impairment charges as compared to $0.08 per diluted share ($269 million before taxes) in 2005. In 2006, we also benefited from favorable federal and state tax resolutions amounting to $405 million, or $0.24 per diluted share. Additionally, in 2006, we benefited from a $0.09 per diluted share gain on the redemption of our UB investment and $0.02 per diluted share net gain on divestitures as compared to a $0.04 per diluted share net gain on divestitures in 2005. Lastly, we benefited $.04 per diluted share due to the 2006 share repurchase activity.

Results of Operations by Business Segment

We manage and report operating results through two commercial units, Kraft North America and Kraft International. We manage Kraft North America s operations by product category, and Kraft International s operations by geographic location.

Kraft North America s segments are North America Beverages; North America Cheese & Foodservice; North America Convenient Meals; North America Grocery; and North America Snacks & Cereals. The two international segments are European Union; and Developing Markets (formerly known as Developing Markets, Oceania & North Asia), the latter to reflect our increased management focus on developing markets.

The following discussion compares our operating results for each of our reportable segments for 2007 with 2006, and for 2006 with 2005.

	For the Years Ended December 31,		
	2007	2006 (in millions)	2005
Net revenues:			
North America Beverages	$ 3,235	$ 3,088	$ 3,056
North America Cheese & Foodservice	6,382	6,078	6,244
North America Convenient Meals	5,097	4,863	4,719
North America Grocery	2,699	2,731	3,024
North America Snacks & Cereals	6,526	6,358	6,250
European Union	7,954	6,672	6,714