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

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

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

COMMISSION FILE NUMBER 1-16483



Kraft Foods Inc.

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of incorporation or organization)

52-2284372
(I.R.S. Employer Identification No.)

Three Lakes Drive, Northfield, Illinois
(Address of principal executive offices)

60093-2753
(Zip Code)

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

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

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the shares of Class A Common Stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on June 30, 2010, was \$49 billion. At January 31, 2011, there were 1,748,927,248 shares of the registrant's Class A Common Stock outstanding.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its annual meeting of shareholders to be held on May 24, 2011 are incorporated by reference into Part III hereof.

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, equity and cash flows present fairly, in all material respects, the financial position of Kraft Foods Inc. and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

As described in the Report of Management on Internal Control over Financial Reporting management has excluded Cadbury Limited (formerly, Cadbury plc) ("Cadbury") from its assessment of internal control over financial reporting as of December 31, 2010 because it was acquired by the Company in a purchase business combination during 2010. We have also excluded Cadbury from our audit of internal control over financial reporting. Cadbury is a wholly-owned subsidiary whose total assets and total revenues represent 32% and 19%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010.

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
February 28, 2011

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

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

	Currency Translation Adjustments	Pension and Other Benefits	Derivatives Accounted for as Hedges	Total
	(in millions)			
Balances at January 1, 2008	\$ (51)	\$ (1,811)	\$ 27	\$ (1,835)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	(2,348)	114	-	(2,234)
Amortization of experience losses and prior service costs	-	98	-	98
Settlement losses	-	48	-	48
Net actuarial loss arising during period	-	(2,021)	-	(2,021)
Change in fair value of cash flow hedges	-	-	(50)	(50)
Total other comprehensive losses				<u>(4,159)</u>
Balances at December 31, 2008	\$ (2,399)	\$ (3,572)	\$ (23)	\$ (5,994)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	1,893	(116)	-	1,777
Amortization of experience losses and prior service costs	-	126	-	126
Settlement losses	-	76	-	76
Net actuarial loss arising during period	-	(64)	-	(64)
Change in fair value of cash flow hedges	-	-	124	124
Total other comprehensive earnings				<u>2,039</u>
Balances at December 31, 2009	\$ (506)	\$ (3,550)	\$ 101	\$ (3,955)
Other comprehensive earnings / (losses), net of income taxes:				
Currency translation adjustments	195	(13)	-	182
Amortization of experience losses and prior service costs	-	186	-	186
Settlement losses	-	96	-	96
Net actuarial loss arising during period	-	(377)	-	(377)
Change in fair value of cash flow hedges	-	-	(22)	(22)
Total other comprehensive earnings				<u>65</u>
Balances at December 31, 2010	<u>\$ (311)</u>	<u>\$ (3,658)</u>	<u>\$ 79</u>	<u>\$ (3,890)</u>

Note 10. Stock Plans:

We align our annual and long-term incentive compensation programs with shareholder returns. Under the Amended and Restated 2005 Performance Incentive Plan (the "2005 Plan"), we may grant to eligible employees awards of stock options, stock appreciation rights, restricted stock, restricted and deferred stock units, and other awards based on our Common Stock, as well as performance-based annual and long-term incentive awards. We are authorized to issue a maximum of 168.0 million shares of our Common Stock under the 2005 Plan. In addition, under the Kraft Foods 2006 Stock Compensation Plan for Non-Employee Directors (the "2006 Directors Plan"), we may grant up to 500,000 shares of our Common Stock to members of the Board of Directors who are not our full-time employees. At December 31, 2010, there were 73,897,346 shares available to be granted under the 2005 Plan and 326,766 shares available to be granted under the 2006 Directors Plan. Restricted or deferred shares available for grant under the 2005 Plan at December 31, 2010, were 23,599,273.

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

Stock Options:

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

We account for our employee stock options under the fair value method of accounting using a modified Black-Scholes methodology to measure stock option expense at the date of grant. The fair value of the stock options at the date of grant is amortized to expense over the vesting period. We recorded compensation expense related to stock options of \$46 million in 2010, \$31 million in 2009 and \$18 million in 2008. The deferred tax benefit recorded related to this compensation expense was \$15 million in 2010, \$11 million in 2009 and \$6 million in 2008. The unamortized compensation expense related to our stock options was \$60 million at December 31, 2010 and is expected to be recognized over a weighted-average period of two years. Our weighted-average Black-Scholes fair value assumptions were as follows:

	<u>Risk-Free Interest Rate</u>	<u>Expected Life</u>	<u>Expected Volatility</u>	<u>Expected Dividend Yield</u>	<u>Fair Value at Grant Date</u>
2010	2.82%	6 years	19.86%	4.14%	\$ 3.69
2009	2.46%	6 years	21.36%	4.90%	\$ 2.68
2008	3.08%	6 years	21.04%	3.66%	\$ 4.49

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

Stock option activity for the year ended December 31, 2010 was:

	<u>Shares Subject to Option</u>	<u>Weighted- Average Exercise Price</u>	<u>Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Balance at January 1, 2010	46,727,697	\$ 25.56		
Options granted	18,077,470	29.24		
Options exercised	(7,611,479)	18.25		
Options cancelled	<u>(2,957,527)</u>	27.56		
Balance at December 31, 2010	<u>54,236,161</u>	27.71	6.5 years	\$206 million
Exercisable at December 31, 2010	<u>23,564,404</u>	27.89	3.9 years	\$ 85 million

In February 2010, as part of our annual equity program, we granted 15.0 million stock options to eligible employees at an exercise price of \$29.15. We also issued 3.1 million off-cycle shares of stock options during 2010 at a weighted-average exercise price of \$29.73 on the date of grant, including options issued to Cadbury employees under our annual equity program.

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

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

The total intrinsic value of options exercised was \$92 million in 2010, \$72 million in 2009, and \$76 million in 2008. Cash received from options exercised was \$134 million in 2010, \$79 million in 2009, and \$80 million in 2008. The actual tax benefit realized for the tax deductions from the option exercises totaled \$60 million in 2010, \$52 million in 2009, and \$44 million in 2008.

Restricted and Deferred Stock:

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

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

The fair value of the restricted and deferred shares at the date of grant is amortized to earnings over the restriction period. We recorded compensation expense related to restricted and deferred stock of \$128 million in 2010, \$133 million in 2009, and \$160 million in 2008. The deferred tax benefit recorded related to this compensation expense was \$39 million in 2010, \$44 million in 2009, and \$53 million in 2008. The unamortized compensation expense related to our restricted and deferred stock was \$150 million at December 31, 2010 and is expected to be recognized over a weighted-average period of two years.

Our restricted and deferred stock activity for the year ended December 31, 2010 was:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at January 1, 2010	13,854,953	\$ 29.30
Granted	5,782,531	28.82
Vested	(4,063,589)	34.17
Forfeited	(1,352,401)	27.91
Balance at December 31, 2010	<u>14,221,494</u>	27.84

In January 2010, we granted 1.7 million shares of stock in connection with our long-term incentive plan, and the market value per share was \$27.33 on the date of grant. During 2010, we granted an additional 0.6 million shares of stock in connection with our long-term incentive plan and market value per share was \$29.15 on the date of grant. In February 2010, as part of our annual equity program, we issued 2.5 million shares of restricted and deferred stock to eligible employees, and the market value per restricted or deferred share was \$29.15 on the date of grant. During 2010, we issued an additional 1.0 million off-cycle shares of restricted and deferred stock at a weighted-average market value per restricted or deferred share of \$29.57 on the date of grant, including shares issued to Cadbury employees under our annual equity program. In aggregate, we issued 5.8 million restricted and deferred shares during 2010, including those issued as part of our long-term incentive plan.

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

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

The weighted-average grant date fair value of restricted and deferred stock granted was \$167 million, or \$28.82 per restricted or deferred share, in 2010, \$143 million, or \$24.68 per restricted or deferred share, in 2009, and \$151 million, or \$30.38 per restricted or deferred share, in 2008. The vesting date fair value of restricted and deferred stock was \$117 million in 2010, \$153 million in 2009, and \$196 million in 2008.

Note 11. Benefit Plans:

Pension Plans

Obligations and Funded Status:

The projected benefit obligations, plan assets and funded status of our pension plans at December 31, 2010 and 2009 were:

	U.S. Plans		Non-U.S. Plans	
	2010	2009	2010	2009
	(in millions)			
Benefit obligation at January 1	\$ 6,195	\$ 6,133	\$ 4,401	\$ 3,211
Service cost	145	152	162	67
Interest cost	368	369	419	215
Benefits paid	(322)	(310)	(462)	(225)
Settlements paid	(244)	(187)	(49)	(14)
Curtailment gain	(23)	(168)	(3)	-
Actuarial losses	368	203	265	619
Acquisition	206	-	4,375	-
Currency	-	-	(164)	510
Other	10	3	(49)	18
Benefit obligation at December 31	<u>6,703</u>	<u>6,195</u>	<u>8,895</u>	<u>4,401</u>
Fair value of plan assets at January 1	5,496	4,386	3,397	2,618
Actual return on plan assets	671	1,180	624	400
Contributions	85	427	326	209
Benefits paid	(322)	(310)	(462)	(225)
Settlements paid	(244)	(187)	(49)	(14)
Acquisition	114	-	3,702	-
Currency	-	-	(84)	414
Other	-	-	(1)	(5)
Fair value of plan assets at December 31	<u>5,800</u>	<u>5,496</u>	<u>7,453</u>	<u>3,397</u>
Net pension liability recognized at December 31	<u>\$ (903)</u>	<u>\$ (699)</u>	<u>\$ (1,442)</u>	<u>\$ (1,004)</u>

Our projected benefit obligation decreased \$23 million in 2010 due to the divestiture of our Frozen Pizza business and its effect on certain of our U.S. pension plans. In 2009, our projected benefit obligation decreased \$168 million due to the freeze of certain of our U.S. pension plans.

The accumulated benefit obligation, which represents benefits earned to the measurement date, was \$6,208 million at December 31, 2010 and \$5,673 million at December 31, 2009 for the U.S. pension plans. The accumulated benefit obligation for the non-U.S. pension plans was \$8,549 million at December 31, 2010 and \$4,115 million at December 31, 2009.

The combined U.S. and non-U.S. pension plans resulted in a net pension liability of \$2,345 million at December 31, 2010 and \$1,703 million at December 31, 2009. We recognized these amounts in our consolidated balance sheets at December 31, 2010 and 2009 as follows:

	2010	2009
	(in millions)	
Prepaid pension assets	\$ 86	\$ 115
Other accrued liabilities	(49)	(53)
Accrued pension costs	(2,382)	(1,765)
	<u>\$ (2,345)</u>	<u>\$ (1,703)</u>