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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2011

OR

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

COMMISSION FILE NUMBER 1-16483

Kraft Foods Inc.
(Exact name of registrant as specified in its charter)

Virginia	**52-2284372**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Three Lakes Drive, Northfield, Illinois	**60093-2753**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ 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 ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the shares of Class A Common Stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on June 30, 2011, was $62 billion. At January 31, 2012, there were 1,768,235,021 shares of the registrant's Class A Common Stock outstanding.

Documents Incorporated by Reference

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

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, comprehensive earnings, equity and cash flows present fairly, in all material respects, the financial position of Kraft Foods Inc. and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 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, 2011, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the reporting date to remove the two-week reporting lag for certain of the Company's locations outside of the United States.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois
February 27, 2012

Note 9. Capital Stock

Our articles of incorporation authorize 5.0 billion shares of Class A common stock and 500 million shares of preferred stock. In 2010, we combined our Class A and Class B common stock authorizations. Accordingly, we only have a single class of Class A common stock authorized. Shares of Class A common stock issued, in treasury and outstanding were:

	Shares Issued	Treasury Shares	Shares Outstanding
Balance at January 1, 2009	1,735,000,000	(265,698,560)	1,469,301,440
Exercise of stock options and issuance of other stock awards	–	8,583,463	8,583,463
Balance at December 31, 2009	1,735,000,000	(257,115,097)	1,477,884,903
Shares issued	261,537,778	–	261,537,778
Exercise of stock options and issuance of other stock awards	–	8,643,868	8,643,868
Balance at December 31, 2010	1,996,537,778	(248,471,229)	1,748,066,549
Exercise of stock options and issuance of other stock awards	–	19,830,140	19,830,140
Balance at December 31, 2011	1,996,537,778	(228,641,089)	1,767,896,689

At December 31, 2011, 115,094,789 shares of Class A common stock were reserved for stock options and other stock awards. There were no preferred shares or Class B common shares issued and outstanding at December 31, 2011, 2010 and 2009.

In 2010, we issued 262 million shares of our Class A common stock as part of the Cadbury acquisition. The issued stock had a total fair value of $7,457 million based on the average of the high and low market prices on the dates of issuance.

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, the Kraft Foods Restated 2006 Stock Compensation Plan for Non-Employee Directors (the "2006 Directors Plan"), was amended in 2011 at our annual meeting of shareholders in May 2011, and we now may grant up to 1,000,000 shares of our Common Stock to members of the Board of Directors who are not our full-time employees. At December 31, 2011, there were 56,752,061 shares available to be granted under the 2005 Plan and 789,603 shares available to be granted under the 2006 Directors Plan. Restricted or deferred shares available for grant under the 2005 Plan at December 31, 2011, were 19,886,997.

All stock awards are issued to employees from treasury stock. We have no specific policy to repurchase our 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.

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 $49 million in 2011, $46 million in 2010 and $31 million in 2009. The deferred tax benefit recorded related to this compensation expense was $15 million in 2011, $15 million in 2010 and $11 million in 2009. The unamortized compensation expense related to our stock options was $67 million at December 31, 2011 and is expected to be recognized over a weighted-average period of two years. Our weighted-average Black-Scholes fair value assumptions were as follows:

	Risk-Free Interest Rate	Expected Life	Expected Volatility	Expected Dividend Yield	Fair Value at Grant Date
2011	2.34%	6 years	18.92%	3.72%	$ 3.84
2010	2.82%	6 years	19.86%	4.14%	$ 3.69
2009	2.46%	6 years	21.36%	4.90%	$ 2.68

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. 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, 2011 was:

	Shares Subject to Option	Weighted-Average Exercise Price	Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at January 1, 2011	54,236,161	$27.71		
Options granted	16,319,790	31.81		
Options exercised	(17,693,101)	28.00		
Options cancelled	(3,263,983)	29.27		
Balance at December 31, 2011	49,598,867	28.87	8 years	$426 million
Exercisable at December 31, 2011	18,876,266	27.21	7 years	$189 million

In February 2011, as part of our annual equity program, we granted 15.8 million stock options to eligible employees at an exercise price of $31.83. In the aggregate, we granted 16.3 million stock options during 2011 at a weighted-average exercise price of $31.81.

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. In the aggregate, we granted 18.1 million stock options during 2010 at a weighted-average exercise price of $29.24, 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.

The total intrinsic value of options exercised was $98 million in 2011, $92 million in 2010 and $72 million in 2009. Cash received from options exercised was $486 million in 2011, $134 million in 2010 and $79 million in 2009. The actual tax benefit realized for the tax deductions from the option exercises totaled $40 million in 2011, $60 million in 2010 and $52 million in 2009.

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 $132 million in 2011, $128 million in 2010, and $133 million in 2009. The deferred tax benefit recorded related to this compensation expense was $41 million in 2011, $39 million in 2010, and $44 million in 2009. The unamortized compensation expense related to our restricted and deferred stock was $164 million at December 31, 2011 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, 2011 was:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at January 1, 2011	14,221,494	$27.84
Granted	5,070,012	31.97
Vested	(4,353,760)	30.35
Forfeited	(1,320,573)	29.30
Balance at December 31, 2011	13,617,173	28.43

In January 2011, we granted 1.5 million shares of stock in connection with our long-term incentive plan, and the market value per share was $31.62 on the date of grant. In February 2011, as part of our annual equity program, we issued 2.6 million shares of restricted and deferred stock to eligible employees, and the market value per restricted or deferred share was $31.83 on the date of grant. In aggregate, we issued 5.1 million restricted and deferred shares during 2011, including those issued as part of our long-term incentive plan, with a weighted-average market value per share of $31.97.

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. 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. In aggregate, we issued 5.8 million restricted and deferred shares during 2010, including those issued as part of our long-term incentive plan, with a weighted-average market value per share of $28.82.

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. In aggregate, we issued 5.8 million restricted and deferred shares during 2009, including those issued as part of our long-term incentive plan, with a weighted-average market value per share of $24.68.

The weighted-average grant date fair value of restricted and deferred stock granted was $162 million, or $31.97 per restricted or deferred share, in 2011; $167 million, or $28.82 per restricted or deferred share, in 2010; and $143 million, or $24.68 per restricted or deferred share, in 2009. The vesting date fair value of restricted and deferred stock was $135 million in 2011, $117 million in 2010, and $153 million in 2009.

Note 11. Benefit Plans

Pension Plans

Obligations and Funded Status:
The projected benefit obligations, plan assets and funded status of our pension plans at December 31, 2011 and 2010 were:

	U.S. Plans		Non-U.S. Plans	
	2011	2010	2011	2010
	(in millions)			
Benefit obligation at January 1	$ 6,703	$ 6,195	$ 8,895	$ 4,401
Service cost	146	145	170	162
Interest cost	364	368	458	419
Benefits paid	(304)	(322)	(470)	(462)
Settlements paid	(187)	(244)	–	(49)
Curtailment gain	(3)	(23)	(1)	(3)
Actuarial losses	744	368	588	265
Acquisition	–	206	–	4,375
Currency	–	–	(95)	(164)
Other	9	10	36	(49)
Benefit obligation at December 31	7,472	6,703	9,581	8,895
Fair value of plan assets at January 1	5,800	5,496	7,453	3,397
Actual return on plan assets	(18)	671	284	624
Contributions	538	85	387	326
Benefits paid	(304)	(322)	(470)	(462)
Settlements paid	(187)	(244)	–	(49)
Acquisition	–	114	–	3,702
Currency	–	–	(54)	(84)
Other	–	–	–	(1)
Fair value of plan assets at December 31	5,829	5,800	7,600	7,453
Net pension liability recognized at December 31	$ (1,643)	$ (903)	$ (1,981)	$ (1,442)

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