

SAVE! Signed TIF Application

w/ Fee



Kraft Foods
Oscar Mayer Foods



April 14, 2009

Mr. Joe Gromacki
TIF Coordinator
City of Madison
Madison, WI 53701-2983

RE: Kraft Foods Global, Inc. - Tax Increment Financing Application

Dear Mr. Gromacki:

Kraft Foods Global, Inc. (DBA Oscar Mayer) is considering an investment of approximately \$10 million that would lead to increased energy efficiency at the manufacturing facility in Madison. Kraft respectfully requests that Madison consider the use of Industrial Tax Increment Financing ("TIF") to help support this sustainability project. Please find attached the completed TIF Application.

Kraft is a global manufacturer and marketer of high-quality, brand name products for consumers throughout the world. Kraft is one of the world's largest food and beverage companies with 2007 revenues of over \$37 billion. Kraft currently has more than 90,000 employees and 159 manufacturing and processing facilities worldwide. The Oscar Mayer division manufactures and markets well known brands such as: Premium Franks, Deli Meats, Bacon, and an all time favorite, Bologna.

Local Presence

Oscar Mayer is one of Kraft's leading, house-hold-name brands. Oscar Mayer has been part of the Dane County community since 1919. Kraft is one of the employers of choice in Madison and one of the largest employers in Dane County. Madison has significant importance to Kraft because it is the site of one of Kraft's regional headquarters.

Kraft currently employs approximately 3,425 people throughout Wisconsin. Kraft currently employs approximately 1,100 people in Madison with an average hourly wage of \$14.50 for the hourly production positions. As you know, during 2007/2008, Kraft selected Madison as the site of an expansion project that created 100 full-time positions.

Growth and Energy Sustainability

Kraft is considering an investment project that would involve the replacement of the existing three boilers with more energy efficient boilers. The current boilers are over 60 years old and were converted from coal burning to natural gas burning in an effort to increase efficiency years ago. The new boilers will burn natural gas at a much higher level of efficiency. In addition, it is anticipated that the new system will include an exhaust gas condensing economizer for capturing heat from the exhaust which can be used to pre-heat plant hot water.

As we have previously discussed, the estimated capital investment (total of \$10 million) may lead to an increase of the property tax base of approximately \$3 million. Based on our mutual calculations, Kraft respectfully requests the City consider providing \$400,000 of the future tax revenue to help offset the cost of eligible project investment.

As we have discussed, Kraft utilizes a competitive evaluation process when considering alternative sites for future investment and expansion projects. The Madison facility regularly competes with other Oscar Mayer manufacturing facilities for capital investment projects, many of which have lower operating costs. By making this investment in energy efficiency, this project will help to better position the Madison facility for future expansion consideration. The TIF would contribute to long-term viability of the Madison plant.

Application Items

Per Item 6 on page 5, please find attached financial statements for Kraft Foods Inc. and Subsidiaries for the previous three years as well as the most current quarterly financial statements. Kraft does not issue separate financial statements by facility.

Per Item 8, Part 3; Kraft authorizes the City to conduct a credit review of the corporation's financial statements.

Kraft hopes to maintain its presence as an industry leader and preferred employer in Madison, Wisconsin. Kraft has not applied for incentives in the past and is looking forward to working with the city of Madison on this project. Kraft formally requests the City consider approving the industrial TIF Application to help with the energy efficiency investment.

Thank you for your consideration and interest in Kraft's proposed energy sustainability project. Please contact me at (608) 285-6888 with any questions or if you need additional information.

Very truly yours,



Kevin Bacon
Plant Manager

Enclosures

cc: Derek Crawford, Kraft
Tony D'Alexander, Kraft
Matthew Mikolajewski, Madison
Peter Christianson, DeWitt, Ross & Stevens
Tim Schram, Grant Thornton



Industrial TIF Assistance Application

Amended March 2008

City of Madison, Wisconsin
Department of Planning and Community and Economic Development
Economic Development Division

Date: April 14, 2009

Loan Applicant: Kraft Foods Global, Inc.
(Developer, company or business entity requesting TIF assistance)

Company Name: Kraft Foods Global, Inc.
(Company or business entity providing job creation/retention guaranty)

Current Company Address: 910 Mayer Avenue, Madison, WI 53704

Project Address: _____
(If address is not available, identify by lot number and plat name or use tax parcel I.D. number)

1. INSTRUCTIONS

(a) Review the following Notices:

- **NOTICE REGARDING LOBBYING ORDINANCE:** If you are seeking approval of TIF assistance from the City with a value of \$10,000 then you likely are subject to Madison's lobbying ordinance, Section 2.40 MGO. You are required to register and report your lobbying. Please consult the City Clerk for more information. Failure to comply with the lobbying ordinance may result in fines of \$1,000 to \$5,000.
- **NOTICE REGARDING BEST VALUE CONTRACTING ORDINANCE:** If the amount of City of Madison financial assistance contributes to a project where construction costs are greater than or equal to \$221,000 (or some other amount established annually by the City of Madison), Madison General Ordinance 33.07(7) requires that the general contractor must be pre-qualified by the City Engineer and must participate in a Class A apprenticeship program for each trade or classification in which it employs workers. For more information contact City Engineering at (608) 266-4751.
- **NOTICE CONCERNING PROJECT START—** Wisconsin TIF Law (Wis. Stats. 66.1105) requires that the City demonstrate that "but for" TIF financial assistance, the project wouldn't otherwise occur. Therefore, the City of Madison shall not provide TIF financial assistance to a project that starts prior to adoption of a TIF loan funding resolution by the Common Council.

(b) **Use the Form Provided.** Applications shall only be accepted on this form. Required attachments or additional sheets may be attached if you require more space to provide the required information or you may add such space to an electronic version of the Application that may be provided to you at your request.

(c) **Obligations of Build-to-Suit Developers.** Applicants that are intending to construct build-to-suit facilities for a business tenant are obligated to complete Sections 3 through 5, and Sections 8 through 10. If an Internal Revenue Code 1031 exchange of the business' current facility for the new facility is anticipated in future, so indicate in Section 9 of the Application.

(d) **Obligations of Private Business Tenants of Build-to-Suit.** Tenants of build-to-suit Applicants are obligated to complete the job creation and financial Sections 6, 7 and 10 of the Application.

(e) **Review TIF Policy.** City of Madison TIF Policy may be found online at <http://www.cityofmadison.com/planning/tidmaps/TIFPOLICY.pdf>.

(f) The following are some important state statutes, TIF policies, procedures and guidelines that impact TIF, including but not limited to:

- o **50% Rule**—Per TIF Policy 3.1 (c) No more than 50% of the net present value of TIF generated by a private development project shall be made available to that project as gap financing.
 - o **Open Records Law**—Per Wisconsin statute concerning open records any record, data or information included herein in the TIF Application may be disclosed to the public upon request.
 - o **Prevailing and Living Wage Rates, Non-Discrimination**—Per Madison General Ordinance (MGO) 4.20 and 4.23 (Exhibit C), Developers receiving City funds must pay a Living Wage a Prevailing Wage and conform with Non-Discrimination Ordinance MGO 39.02. Contact the City of Madison Affirmative Action office at (608) 267-8759 to set up an introductory meeting regarding compliance with these ordinances.
- (g) **Submit Application and Fee.** The application must be signed with a check for .005 of the requested loan amount to "City Treasurer." Submit application and fee to:

Joe Gromacki
 TIF Coordinator
 City of Madison
 Madison, WI 53701-2983
 Phone: (608) 267-8724 FAX: (608) 267-8739

2. APPLICATION REVIEW PROCESS

- (a) **Initial Meeting(s) with TIF Staff**—The Applicant/Company shall meet with TIF staff to discuss the project and City requirements.
- (b) **TIF Team Feasibility Determination**—Upon submission of a completed TIF Loan Application, the TIF Coordinator and a team of City staff (TIF Team) conduct a thorough analysis of the project to determine the feasibility of TIF assistance.
- (c) **TIF Team Finding**—The TIF Team meets with the Applicant to share its findings.
- (d) **Common Council Introduction, Adoption**—If there is City support for the project, the TIF Coordinator may introduce a resolution to the Madison Common Council recommending TIF assistance. The resolution is referred to the Board of Estimates for consideration. Upon the Board's approval, the resolution is reported back to the Common Council for consideration and adoption.
- (e) **Meetings with Affirmative Action Concerning Prevailing and Living Wage**—Applicant shall contact the City of Madison Affirmative Action office at (608) 267-8759 to set up an introductory meeting regarding compliance with these ordinances.
- (f) **Closing Documents Drafted**—Upon Common Council adoption, the funding process, including drafting of the loan and regulatory agreement, mortgage and security documents may begin.

3. PROJECT DESCRIPTION

Site Area (in SF)	72 acres
Current Zoning	Industrial
Proposed Zoning	Industrial
Building Size (in SF)	10,000 sq ft
Estimated Project Cost	\$10,000,000
Estimated Value at Completion	\$3,000,000

PROJECT COST

Land	
Hard Construction Cost	\$2,500,000
Capital Equipment Purchase	\$7,500,000
Soft Cost	
Total Cost	\$10,000,000

PROPOSED GAP – Sources and Uses of Capital

SOURCES AND USES (GAP)	Proposed
Loan(s)	
Other Source (Specify)	
Equity (Do not include Developer Fees!)	\$9,600,000
Total Sources	\$9,600,000
Less: Uses (i.e. Total Cost)	\$(10,000,000)
GAP (TIF Request)	\$400,000

4. DEVELOPER PRO FORMA (Build to Suit Applicants Only)

	Lease Type (Net, 3-Net, etc.)	Base Rent (per SF)	CAM (per SF)	Gross Rent/SF
RENTS				
Commercial	N/A	N/A	N/A	N/A
Retail	N/A	N/A	N/A	N/A
Parking	N/A	N/A	N/A	N/A
Other	N/A	N/A	N/A	N/A

Value Assumptions – Rental	Proposed Value	Est. NOI @ Stabilization	Cap Rate
Commercial Rental	N/A	N/A	%
Other (Specify)	N/A	N/A	%
Total Estimated Value	N/A	N/A	%

Leverage Assumptions— Rental	Debt Coverage Ratio (DCR)	Loan to Value %
Office	N/A	%
Retail – Commercial	N/A	%
Other	N/A	%

6. **FINANCIAL STATEMENTS AND PRO FORMA**-Please provide general, historical financial data for the previous three years of operation, a projection of the first year of operation after project completion, and a current balance sheet and income statement for the most recent 90-day period. You may add rows or columns and use round figures if necessary.

Balance Sheet

Year	20__	20__	20__	Current Period (90-days)	Pro Forma Year 1
Assets					
Cash & Equivalents					
Accounts Receivable					
Inventory					
Current Assets					
Net Fixed Assets					
Other					
Total Assets					
Liabilities & Net Worth	SEE ATTACHED				
Notes Payable					
Accounts Payable					
Accruals					
Tax Payable					
Current Portion Long Term Debt					
Current Liabilities					
Long Term Debt					
Total Liabilities					
Officer Loans					
Common Stock					
Capital Stock					
Retained Earnings					
Treasury Stock					
Net Worth					
Total Liabilities & Net Worth					

Income Statement

Year	20__	20__	20__	Current Period	Pro Forma Year 1
Sales					
-Cost of Goods Sold					
Gross Profit					
-Sales, Gen. Admin.					
Operating Profit					
-Depreciation					
-Interest					
- Rent					
-Other Income/Expense					
Earnings Before Tax					
-Income Tax					
Profit After Tax					

7. JOBS CREATED/RETAINED

Current FTE Employees	1,100
FTE Jobs Retained	1,100
FTE Jobs Created	0
Number of Living Wage Jobs Created	0
Average Hourly Wage	14.50 est.

8. ATTACHMENTS— *Please attach the following:*

- The TIF Application Fee. A non-refundable fee of ½ of 1% of the requested TIF assistance is due and payable at the time of application. Attach a check with this application made payable to **Treasurer – City of Madison**. Indicate the fee amount: \$2,000.00.
- A map of the project site and its surrounding structures, including size, shape, arrangement of densities, parking and street patterns.
- A letter from the applicant authorizing the City to conduct credit review of the Applicant's personal and/or corporate financial statements. Please see attached

9. ADDITIONAL QUESTIONS

- Is Applicant a developer leasing the property to a private business that will occupy it as a tenant? If yes, explain.

No

- If the answer to the above question is "yes", is the business or some other entity related to the business purchasing/exchanging/taking title to the property at a later date? If yes, explain.

N/A

- Does the project require the extension of sewer and/or water to the site? If yes, explain.

No

- Does the project require extension of public roads to the site? If yes, explain.

No

- Does the project require a change of zoning? If yes, explain.

No

- Does the Applicant for TIF assistance owe back property taxes? If yes, explain.

No

10. ACKNOWLEDGEMENT

By signing this Application, the Loan Applicant and Company have reviewed and shall abide by Madison's Non-Discrimination, Affirmative Action, Prevailing Wage and Living Wage ordinances and agree to comply with Madison TIF Policy.

TIF Loan Application submitted by:

Kevin Bacon
Signature of Loan Applicant, Company Officer

Kevin BACON
Print Name

Plant Manager
Title

4/20/09
Date

COMPLETED BY TENANT BUSINESS ONLY

By signing this Application, Tenant of the Applicant shall abide by Madison's Non-Discrimination, Affirmative Action, Prevailing and Living Wage ordinances and agrees to comply with Madison TIF Policy.

Signature of Tenant Principal

Print Name

Title

Date

Item 8. Financial Statements and Supplementary Data.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net revenues	\$ 37,241	\$ 34,356	\$ 34,113
Cost of sales	24,651	21,940	21,845
Gross profit	12,590	12,416	12,268
Marketing, administration and research costs	7,809	7,254	7,138
Asset impairment and exit costs	452	1,002	479
Gain on redemption of United Biscuits investment	-	(251)	-
Gains on divestitures, net	(15)	(117)	(108)
Amortization of intangibles	13	7	10
Operating income	4,331	4,521	4,749
Interest and other debt expense, net	604	510	636
Earnings from continuing operations before income taxes	3,727	4,011	4,113
Provision for income taxes	1,137	951	1,209
Earnings from continuing operations	2,590	3,060	2,904
Loss from discontinued operations, net of income taxes	-	-	(272)
Net earnings	<u>\$ 2,590</u>	<u>\$ 3,060</u>	<u>\$ 2,632</u>
Per share data:			
Basic earnings per share:			
Continuing Operations	\$ 1.64	\$ 1.86	\$ 1.72
Discontinued Operations	-	-	(0.16)
Net Earnings	<u>\$ 1.64</u>	<u>\$ 1.86</u>	<u>\$ 1.56</u>
Diluted earnings per share:			
Continuing Operations	\$ 1.62	\$ 1.85	\$ 1.72
Discontinued Operations	-	-	(0.17)
Net Earnings	<u>\$ 1.62</u>	<u>\$ 1.85</u>	<u>\$ 1.55</u>
Dividends declared	<u>\$ 1.04</u>	<u>\$ 0.96</u>	<u>\$ 0.87</u>

See notes to consolidated financial statements.

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

	2007	2006
ASSETS		
Cash and cash equivalents	\$ 567	\$ 239
Receivables (less allowances of \$94 in 2007 and \$84 in 2006)	5,197	3,869
Inventories:		
Raw materials	1,605	1,389
Finished product	2,491	2,117
Total inventories	4,096	3,506
Deferred income taxes	575	387
Other current assets	302	253
Total current assets	10,737	8,254
Property, plant and equipment, at cost:		
Land and land improvements	454	389
Buildings and building equipment	4,121	3,657
Machinery and equipment	13,750	12,164
Construction in progress	879	840
	19,204	17,050
Less accumulated depreciation	8,426	7,357
Property, plant and equipment, net	10,778	9,693
Goodwill	31,193	25,553
Intangible assets, net	12,200	10,177
Prepaid pension assets	1,648	1,168
Other assets	1,437	729
TOTAL ASSETS	\$ 67,993	\$ 55,574
LIABILITIES		
Short-term borrowings	\$ 7,385	\$ 1,715
Current portion of long-term debt	722	1,418
Due to Altria Group, Inc. and affiliates	-	607
Accounts payable	4,065	2,602
Accrued liabilities:		
Marketing	1,833	1,626
Employment costs	913	750
Dividends payable	414	45
Other	1,654	1,559
Income taxes	100	151
Total current liabilities	17,086	10,473
Long-term debt	12,902	7,081
Deferred income taxes	4,876	3,930
Accrued pension costs	810	1,022
Accrued postretirement health care costs	2,846	3,014
Other liabilities	2,178	1,499
TOTAL LIABILITIES	40,698	27,019
Contingencies (Note 15)		
SHAREHOLDERS' EQUITY		
Class A common stock, no par value (1,735,000,000 shares issued in 2007 and 555,000,000 shares issued in 2006)	-	-
Class B common stock, no par value (1,180,000,000 shares issued and outstanding in 2006)	-	-
Additional paid-in capital	23,445	23,626
Retained earnings	12,209	11,128
Accumulated other comprehensive losses	(1,835)	(3,069)
Treasury stock, at cost	(6,524)	(3,130)
TOTAL SHAREHOLDERS' EQUITY	27,295	28,555
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 67,993	\$ 55,574

See notes to consolidated financial statements.

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

	Class A and B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Losses	Treasury Stock	Total Shareholders' Equity
Balances at January 1, 2005	\$ -	\$ 23,762	\$ 8,304	\$ (1,205)	\$ (950)	\$ 29,911
Comprehensive earnings:						
Net earnings	-	-	2,632	-	-	2,632
Other comprehensive losses, net of income taxes	-	-	-	(458)	-	(458)
Total comprehensive earnings						2,174
Exercise of stock options and issuance of other stock awards	-	52	(12)	-	118	158
Cash dividends declared (\$0.87 per share)	-	-	(1,471)	-	-	(1,471)
Common Stock repurchased	-	-	-	-	(1,200)	(1,200)
Other	-	21	-	-	-	21
Balances at December 31, 2005	\$ -	\$ 23,835	\$ 9,453	\$ (1,663)	\$ (2,032)	\$ 29,593
Comprehensive earnings:						
Net earnings	-	-	3,060	-	-	3,060
Other comprehensive earnings, net of income taxes	-	-	-	645	-	645
Total comprehensive earnings						3,705
Initial adoption of FASB Statement No. 158, net of income taxes (Note 9)	-	-	-	(2,051)	-	(2,051)
Exercise of stock options and issuance of other stock awards	-	(209)	202	-	152	145
Cash dividends declared (\$0.96 per share)	-	-	(1,587)	-	-	(1,587)
Common Stock repurchased	-	-	-	-	(1,250)	(1,250)
Balances at December 31, 2006	\$ -	\$ 23,626	\$ 11,128	\$ (3,069)	\$ (3,130)	\$ 28,555
Comprehensive earnings:						
Net earnings	-	-	2,590	-	-	2,590
Other comprehensive earnings, net of income taxes	-	-	-	1,234	-	1,234
Total comprehensive earnings						3,824
Initial adoption of FIN 48 (Note 1)	-	-	213	-	-	213
Exercise of stock options and issuance of other stock awards	-	33	(79)	-	293	247
Net settlement of employee stock awards with Altria Group, Inc. (Note 8)	-	(179)	-	-	-	(179)
Cash dividends declared (\$1.04 per share)	-	-	(1,643)	-	-	(1,643)
Common Stock repurchased	-	-	-	-	(3,687)	(3,687)
Other	-	(35)	-	-	-	(35)
Balances at December 31, 2007	\$ -	\$ 23,445	\$ 12,209	\$ (1,835)	\$ (6,524)	\$ 27,295

See notes to consolidated financial statements.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES			
Net earnings	\$ 2,590	\$ 3,060	\$ 2,632
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	886	891	879
Deferred income tax benefit	(436)	(168)	(408)
Gain on redemption of United Biscuits investment	-	(251)	-
Gains on divestitures, net	(15)	(117)	(108)
Loss on sale of discontinued operations	-	-	32
Asset impairment and exit costs, net of cash paid	209	793	315
Change in assets and liabilities, excluding the effects of acquisitions and divestitures:			
Receivables, net	(268)	(200)	65
Inventories	(191)	(149)	(42)
Accounts payable	241	256	74
Income taxes	124	(105)	(33)
Amounts due to Altria Group, Inc. and affiliates	(93)	(133)	273
Other working capital items	(116)	(197)	(432)
Change in pension assets and postretirement liabilities, net	81	(128)	(10)
Other	559	168	227
Net cash provided by operating activities	<u>3,571</u>	<u>3,720</u>	<u>3,464</u>
CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES			
Capital expenditures	(1,241)	(1,169)	(1,171)
Acquisitions, net of cash received	(7,437)	-	-
Proceeds from divestitures	216	946	1,668
Other	46	107	28
Net cash (used in) / provided by investing activities	<u>(8,416)</u>	<u>(116)</u>	<u>525</u>
CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES			
Net issuance / (repayment) of short-term borrowings	5,649	343	(1,005)
Long-term debt proceeds	6,495	69	69
Long-term debt repaid	(1,472)	(1,324)	(775)
(Decrease) / increase in amounts due to Altria Group, Inc. and affiliates	(149)	62	107
Repurchase of Common Stock	(3,708)	(1,254)	(1,175)
Dividends paid	(1,638)	(1,562)	(1,437)
Other	(56)	(54)	265
Net cash provided by / (used in) financing activities	<u>5,121</u>	<u>(3,720)</u>	<u>(3,951)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>52</u>	<u>39</u>	<u>(4)</u>
Cash and cash equivalents:			
Increase / (Decrease)	328	(77)	34
Balance at beginning of period	239	316	282
Balance at end of period	<u>\$ 567</u>	<u>\$ 239</u>	<u>\$ 316</u>
Cash paid:			
Interest	<u>\$ 628</u>	<u>\$ 628</u>	<u>\$ 679</u>
Income taxes	<u>\$ 1,366</u>	<u>\$ 1,560</u>	<u>\$ 1,957</u>

See notes to consolidated financial statements.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Kraft Foods Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(in millions of dollars, except per share data)
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net revenues	\$ 10,462	\$ 8,760	\$ 31,434	\$ 25,991
Cost of sales	7,096	5,835	20,813	17,018
Gross profit	3,366	2,925	10,621	8,973
Marketing, administration and research costs	2,199	1,864	6,689	5,631
Asset impairment and exit costs	123	173	306	347
Losses / (gains) on divestitures, net	1	–	93	(20)
Amortization of intangibles	7	3	18	9
Operating income	1,036	885	3,515	3,006
Interest and other debt expense, net	298	165	934	378
Earnings from continuing operations before income taxes	738	720	2,581	2,628
Provision for income taxes	192	185	818	803
Earnings from continuing operations	546	535	1,763	1,825
Earnings and gain from discontinued operations, net of income taxes (Note 11)	852	61	975	180
Net earnings	\$ 1,398	\$ 596	\$ 2,738	\$ 2,005
Per share data:				
Basic earnings per share:				
Continuing operations	\$ 0.37	\$ 0.34	\$ 1.17	\$ 1.15
Discontinued operations	0.58	0.04	0.65	0.11
Net earnings	\$ 0.95	\$ 0.38	\$ 1.82	\$ 1.26
Diluted earnings per share:				
Continuing operations	\$ 0.36	\$ 0.34	\$ 1.16	\$ 1.13
Discontinued operations	0.57	0.04	0.64	0.12
Net earnings	\$ 0.93	\$ 0.38	\$ 1.80	\$ 1.25
Dividends declared	\$ 0.29	\$ 0.27	\$ 0.83	\$ 0.77

See notes to condensed consolidated financial statements.

Kraft Foods Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions of dollars)
(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	\$ 737	\$ 567
Receivables (less allowances of \$113 in 2008 and \$94 in 2007)	4,709	5,197
Inventories:		
Raw materials	1,825	1,605
Finished product	2,839	2,491
Total inventories, net	4,664	4,096
Deferred income taxes	754	575
Other current assets	393	302
Total current assets	11,257	10,737
Property, plant and equipment, at cost	18,903	19,204
Less accumulated depreciation	8,265	8,426
Property, plant and equipment, net	10,638	10,778
Goodwill	28,573	31,193
Intangible assets, net	13,496	12,200
Prepaid pension assets	1,712	1,648
Other assets	1,269	1,437
TOTAL ASSETS	\$ 66,945	\$ 67,993
LIABILITIES		
Short-term borrowings	\$ 1,000	\$ 7,385
Current portion of long-term debt	719	722
Accounts payable	3,439	4,065
Accrued marketing	1,751	1,833
Accrued employment costs	902	913
Other current liabilities	2,484	2,168
Total current liabilities	10,295	17,086
Long-term debt	18,874	12,902
Deferred income taxes	5,439	4,876
Accrued pension costs	771	810
Accrued postretirement health care costs	2,890	2,846
Other liabilities	2,275	2,178
TOTAL LIABILITIES	40,544	40,698
Contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Common Stock, no par value (1,735,000,000 shares issued in 2008 and 2007)	-	-
Additional paid-in capital	23,505	23,445
Retained earnings	13,623	12,209
Accumulated other comprehensive losses	(2,005)	(1,835)
Treasury stock, at cost	(8,722)	(6,524)
TOTAL SHAREHOLDERS' EQUITY	26,401	27,295
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 66,945	\$ 67,993

See notes to condensed consolidated financial statements.

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Losses) / Earnings	Treasury Stock	Total Shareholders' Equity
Balances at January 1, 2007	\$ --	\$ 23,626	\$ 11,128	\$ (3,069)	\$ (3,130)	\$ 28,555
Comprehensive earnings:						
Net earnings	-	-	2,590	-	-	2,590
Other comprehensive earnings, net of income taxes	-	-	-	1,234	-	1,234
Total comprehensive earnings *						<u>3,824</u>
Initial adoption of FIN 48	-	-	213	-	-	213
Exercise of stock options and issuance of other stock awards	-	33	(79)	-	293	247
Net settlement of employee stock awards with Altria Group, Inc.	-	(179)	-	-	-	(179)
Cash dividends declared (\$1.04 per share)	-	-	(1,643)	-	-	(1,643)
Common Stock repurchased	-	-	-	-	(3,687)	(3,687)
Other	-	(35)	-	-	-	(35)
Balances at December 31, 2007	<u>\$ --</u>	<u>\$ 23,445</u>	<u>\$ 12,209</u>	<u>\$ (1,835)</u>	<u>\$ (6,524)</u>	<u>\$ 27,295</u>
Comprehensive earnings:						
Net earnings	-	-	2,738	-	-	2,738
Other comprehensive losses, net of income taxes	-	-	-	(170)	-	(170)
Total comprehensive earnings *						<u>2,568</u>
Exercise of stock options and issuance of other stock awards	-	60	(75)	-	223	208
Cash dividends declared (\$0.83 per share)	-	-	(1,249)	-	-	(1,249)
Common Stock repurchased	-	-	-	-	(777)	(777)
Common Stock tendered (Note 11)	-	-	-	-	(1,644)	(1,644)
Balances at September 30, 2008	<u>\$ --</u>	<u>\$ 23,505</u>	<u>\$ 13,623</u>	<u>\$ (2,005)</u>	<u>\$ (8,722)</u>	<u>\$ 26,401</u>

* Total comprehensive earnings were \$567 million for the quarter ended September 30, 2008, \$774 million for the quarter ended September 30, 2007 and \$2,578 million for the nine months ended September 30, 2007.

See notes to condensed consolidated financial statements.

Kraft Foods Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in millions of dollars)
(Unaudited)

	For the Nine Months Ended September 30,	
	2008	2007
CASH PROVIDED BY / (USED IN) OPERATING ACTIVITIES		
Net earnings	\$ 2,738	\$ 2,005
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	752	662
Deferred income tax benefit	(118)	(214)
Losses / (gains) on divestitures, net	93	(20)
Gain on discontinued operations (Note 11)	(860)	-
Asset impairment and exit costs, net of cash paid	167	171
Change in assets and liabilities, excluding the effects of acquisitions and divestitures:		
Receivables, net	373	96
Inventories	(817)	(739)
Accounts payable	(216)	36
Amounts due to Altria Group, Inc. and affiliates	-	(93)
Other working capital items	172	(255)
Change in pension assets and postretirement liabilities, net	28	128
Other	217	503
Net cash provided by operating activities	2,529	2,280
CASH PROVIDED BY / (USED IN) INVESTING ACTIVITIES		
Capital expenditures	(901)	(858)
Acquisitions, net of cash received	(99)	-
Proceeds from divestitures, net of disbursements	38	203
Other	38	15
Net cash used in investing activities	(924)	(640)
CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES		
Net (repayment) / issuance of short-term borrowings	(5,834)	1,102
Long-term debt proceeds	6,477	3,550
Long-term debt repaid	(65)	(1,454)
Decrease in amounts due to Altria Group, Inc. and affiliates	-	(149)
Repurchase of Common Stock	(777)	(3,171)
Dividends paid	(1,236)	(1,214)
Other	32	(67)
Net cash used in financing activities	(1,403)	(1,403)
Effect of exchange rate changes on cash and cash equivalents	(32)	22
Cash and cash equivalents:		
Increase	170	259
Balance at beginning of period	567	239
Balance at end of period	\$ 737	\$ 498

See notes to condensed consolidated financial statements.