

FINAL TRANSCRIPT

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KFT - Q4 2006 Kraft Foods Earnings Conference Call

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PRESENTATION

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Operator

Good afternoon and welcome to the Kraft Foods fourth-quarter 2006 year-end earnings conference call. [OPERATOR INSTRUCTIONS] I would now like to turn the floor over to your host Mr. Chris Jakubik, Vice President of Investor Relations for Kraft. Please go ahead, sir.

Chris Jakubik - Kraft Foods - VP,IR

Thank you, and good afternoon. Thanks for joining us on our conference call. I'm Chris Jakubik, Vice President of Investor Relations. With me are Irene Rosenfeld, our Chief Executive Officer, and Jim Dollive, our Chief Financial Officer. Our earnings release was sent out earlier today and is available on our web site, kraft.com. As you know, during this call we may make forward-looking statements about the Company's performance. These statements are based on how we see things today so they contain an element of uncertainty. Actual results may differ materially due to risks and uncertainties. Please refer to the cautionary statements and risk factors contained in the Company's 10-K and 10-Q filings for a more detailed explanation of the inherent limitations in such forward looking statements. Some of today's prepared remarks will exclude those items that affect comparability. Those excluded items are captured in our GAAP to non-GAAP reconciliations also available on our website. We'll start today's call with Irene's perspective on the state of our business and today's announcements. Then Jim will provide an overview of our financials and, finally, Irene will wrap up our prepared comments before Q&A. So now I'll turn it over to Irene.

Irene Rosenfeld - Kraft Foods - CEO

Thanks, Chris. Good afternoon, everyone. This has been quite a day for Kraft. While there's a lot going on, I'm going to focus most of my comments on our results for the quarter and the year. By now, you've all read the headline of our earnings release. Once again, our results are mixed. Frankly, I'm tired of the word mixed but I'm afraid we're going to have to live with it for a while until we get back to predictable growth.

Let me start with North America, where our top line growth slowed significantly in both the fourth quarter and second half of 2006. This was due to two factors, a lower contribution from new products and a decline in market share in a number of core categories. Some I've talked about before, like snack nuts and salad dressings, and some recent weakness in cheese, coffee and pizza. In our international business, though, we saw continued strength in the quarter, driven by developing markets across Latin America and eastern Europe. In the end, in 2006, we delivered earnings, excluding items affecting comparability, above our guidance range. But we got there largely because of a lower tax rate, and that's not the way we like to make our numbers. As I told you last quarter, our performance is not where it needs to be.

Having said that, Kraft is in better shape than it was two years ago. Our restructuring program has delivered over \$0.5 billion of savings at a lower cost than anticipated. For the total program we expect to deliver \$1 billion of savings while spending \$700 million less than previously announced. I'm also very pleased with the progress we've made in building our new management team. We just brought Sanjay Khosla on board to run our international business. He's a terrific talent with broad international experience and a strong track record of growing businesses. No pressure on Sanjay, but we're expecting the same kind of success from him at Kraft.

I'm pleased with the work of our entire executive team. We're approaching our business differently and we're making a number of changes to instill a culture that puts growth first. We're asking for less conformity and more candor, less caution and more creativity. Less consensus and far more action. All with the consumer as our guide. This cultural shift is helping us tackle our tough issues head on. Consider, for example, our recent decisions on the Tassimo hot beverage system. By many measures Tassimo has been a success. We created an \$100 million business—the on demand coffee segment continues to grow at a double digit rate globally. And Tassimo gets high marks for consumer satisfaction. But the size of the business and household penetration fell well short of our original expectations and we needed to address that. We developed a new more realistic business model that recognizes Tassimo's appeal to more targeted consumers, and promises more realistic economic returns.

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And we took swift and significant actions in concert with that decision, including a \$245 million asset impairment charge. We still have confidence in Tassimo. The difference is we've right sized our asset base and our cost structure, and we're retooling our marketing to better capitalize on the opportunity.

This kind of cultural change will help us manage through the business challenges ahead. It starts with our product quality. Parity to competition is no longer good enough. Our goal is superiority. That will have a profound impact on our performance in the market place. We also need to drive growth in our categories and grow share by aligning our portfolio with consumer trends. We need to rebuild our pipeline and fill it with more incremental, trajectory changing ideas, not just small line extensions. And we need to increase our investment in media and consumer support to let our consumers know that we're back. I am optimistic about our ability to meet these challenges. We're beginning to make the necessary changes and investments as we speak. And I will talk more about them at CAGNY, but it will take some time to see the positive impact of these actions in our financial results.

Altria's announcement today that it will spin off Kraft will provide us with a much greater ability to compete and to grow. While our strategies for growth are sound, regardless of who owns our stock, the spin-off will enable us to accelerate our plans. For example, we can use our stock to make acquisitions. We will have greater access to credit markets. We will have fewer layers of management review, and we will have increased ability to repurchase stock as a means of returning cash to our shareholders. You've no doubt noticed that we did not provide 2007 earnings guidance. This is not an oversight. I will provide guidance for 2007 and beyond at the CAGNY conference on February 20. While I recognize that this is a departure from past practice, I firmly believe it would be a disservice to provide numbers today in a vacuum without a thorough understanding of our growth strategies and shareholder value enhancing initiatives.

As we outlined in our press release, we will face some head winds beginning in 2007. Foremost is on the tax line. We anticipate an increase to approximately 37% over time as we lose the benefits of tax consolidation with Altria. In addition, there will be a modest cost of a few cents for our independence, which will over time be significantly offset by the very substantial benefits we will enjoy and that we intend to exploit to the fullest. Let me now turn the call over to Jim to take you through more of the details.

Jim Dollive - Kraft Foods - CFO

Thanks, Irene. And hello everyone. Before we begin, and as indicated in our earnings release, reported results include the impact of one less shipping week in 2006 than in 2005. We estimate that this week represents an approximate 7 percentage point decline on the quarter and a 2 percentage point decline on the full year. The chart on page 7 of our earnings release includes a column at the far right labeled adjusted organic net revenues which adjusts organic net revenues for the impact of one less shipping week.

Now, let's get into the numbers. On a reported basis, fourth-quarter net revenues were 3% below last year. Organic net revenues which adjust for the impact of divestitures, currency and acquisitions, declined 4%. When you take out the impact of last year's extra week, adjusted organic net revenues grew approximately 3%.

Product mix continued to be a large contributor to our revenue growth, adding 2 percentage points. A number of factors led to our improved product mix, including strong growth in powdered beverages in North America, soluble coffee growth in eastern Europe, and the ongoing pruning of low margin product lines. Again, reflecting one less week, ongoing volume for the quarter was down 4.4%. Excluding the extra week and the contribution from acquisitions, like-for-like volume grew about 1%, driven by international markets. Pricing added 0.3 of a percentage point to organic revenue growth as increases across several businesses were partially offset by lower prices on cheese and increased promotional spending on coffee in the EU. Gross margin was essentially flat as higher costs in packaging, coffee, sugar and energy were offset by lower dairy costs, higher net prices and productivity.

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Excluding items that affected comparability, operating income declined about 11%. This was primarily the result of one less week and higher investments in marketing and R&D. On a reported basis, our fully diluted earnings per share for the quarter dropped 17.4% versus last year to \$0.38. Excluding items that affect comparability, earnings per share for the quarter were \$0.51 down \$0.05 from last year. The extra week represents about \$0.04 of this difference. The remaining change reflects the operating income decline as our stock repurchase program and lower interest expense offset the lost earnings from divestitures.

Let's move on to our business segments. As Irene said, growth in North America slowed during the quarter. There was less contribution from new products, and we lost market share in several core categories. However, our investments in other areas, such as processed meats and biscuits, are paying off. These results strengthen our resolve that with the right programs we can restore growth.

We'll start with North American beverages where adjusted organic net revenues were essentially flat. As I mentioned earlier, we had strong growth in powdered beverages driven by our Crystal Light single serve stick packs, which neatly align with consumer trends. Our total stick pack revenues nearly doubled in 2006 to more than \$130 million. And our [Nielsen] measured consumption grew 12% for powdered beverages although we lost share as new competitors introduced stick pack type products. Within ready-to-drink beverages Capri Sun benefited from the growth of Roaring Waters which we launched earlier this year. In our coffee business, premium offerings such as Starbucks and Gevalia continued to do well. On the other hand, our mainstream coffee business faced considerable competitive pressures. Additionally, we are comparing ourselves to 2005, when a key competitor had supply disruptions due to Hurricane Katrina. The result was a 2 percentage point decline in our coffee share.

Turning to North America cheese and food service. Adjusted organic net revenues were down about 1%. The decline reflects the pruning of lower margin product lines in food service and price declines in cheese related to lower dairy costs. After solid gains in the previous two quarters, total cheese share was down slightly in the fourth quarter due to increased competitive promotions during the holidays. We expect this to continue into Q1 due to the timing of our 2007 programs.

Moving on to North America convenient meals. Adjusted organic net revenues were up about 2%. Key drivers include Oscar Mayer, where deli shaved meats continue to gain market share, and our premium California Pizza Kitchen line which is now one of our \$100 million businesses. Total frozen pizza, however, lost share as competitors deeply discounted their products. On to North American grocery where adjusted organic net revenues were essentially flat. Overall, we saw category and share weakness in salad dressings and category weakness in dry desserts. The challenges here relate to keeping our products aligned with consumer trends. For example, consumers are responding well to our products that help them manage their weight such as ready-to-eat sugar free Jell-O pudding and sugar free Cool Whip.

Looking at North America snacks and cereals, adjusted organic net revenues were up about 3%. Strong category and share growth in cookies included successes in Oreo, Chips Ahoy, Nilla and Newtons, the latter two benefiting from recent introductions of mini versions. On crackers, adjusted revenue growth was led by several products reflecting consumers' desire for better-for-you options such as Triscuits, Honey Maid Grahams, toasted chips including the new Wheat Thins variety, and our popular 100 calorie pack crackers. Our total 100 calorie pack business exceeded \$150 million in revenue in 2006. However, overall cracker share was down as we continue to have weakness in Ritz and Cheese Nips. We expect better Ritz performance in 2007 behind an improved product which is just hitting store shelves, and stronger marketing. Within cereals our adult products are doing well, led by our perennial success, Honey Bunches of Oats and new Grape Nuts Trail Mix. These gains were offset by declines in kids' cereals.

Now I'll turn to our international business. It was a very good year for international particularly in developing markets. In the EU, adjusted organic net revenue in Q4 grew about 2%. Some notable items include our chocolate business, where adjusted revenues grew 5%. We had absolutely great performance in Milka with new product introductions and the expansion program of our premium C te d'Or products. In coffee, we put promotions in place in Germany to improve consumption and share. We're seeing the intended impacts although the environment will continue to be difficult. Also within the EU, we're pleased with the progress of our United Biscuits integration in Spain and Portugal. Early business results are encouraging and we remain enthusiastic about the opportunities ahead.

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Finally, developing markets. Oceania and North Asia had another strong quarter. Adjusted organic net revenues grew about 13%. Our developing markets in eastern Europe and Latin America were again the strongest areas of growth with significant contributions from soluble coffee and confectionaries in eastern Europe and strong category growth in chocolate and biscuits in Latin America.

Now I'll provide an update on our restructuring program. For the year, we spent \$673 million, bringing our total spending on the program to \$1.6 billion. We are now estimating total costs for the full program of \$3 billion versus our previous expectation of \$3.7 billion. Also, the cash portion of these costs is estimated at \$1.9 billion versus our previous expectation of \$2.3 billion. Our cumulative savings to date have reached approximately \$540 million. We're now estimating total program savings at \$1 billion. There are a few key changes within this program. First, instead of closing one of our facilities we sold it as an ongoing operation—a better economic solution for Kraft and a much better result for employees. Second, we cancelled an initiative to generate sales efficiency that testing suggested would have negatively impacted sales effectiveness. Other drivers of the revisions to our restructuring program are better efficiency and timing shifts in executing planned activities. The timing shifts will impact previously planned costs and savings in 2007, specifically, by the end of 2007 we expect cumulative savings to reach approximately \$700 million with 2007 costs of approximately \$625 million. With that I'll turn the call back to Irene.

Irene Rosenfeld - Kraft Foods - CEO

Thanks, Jim. Before we open the call to your questions, I'd like to share a few final thoughts. You've been hearing Kraft talk about growth for quite some time. But frankly the Company hasn't delivered. It hasn't met your expectations, or mine. So I can understand why you might be impatient. I assure you I am too. But I want to remind you that this is a long road we're on. While it's the right road and we've already covered a lot of ground, we have many more miles to go. The plan I'll share with you at CAGNY is about building shareholder value through a few sound strategies, better execution, and a consumer based approach to accelerating growth that can have a demonstrable impact on our business. Now we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] Our first question is with David Adelman from Morgan Stanley.

David Adelman - Morgan Stanley - Analyst

Good morning everyone -- or good evening, everyone.

Irene Rosenfeld - Kraft Foods - CEO

Hello, David.

David Adelman - Morgan Stanley - Analyst

Irene, I wanted to ask you a few things. First of all, if you just step back a minute... You've been at Kraft or come back to Kraft for a period of time. Shareholders have been here for a long time. Margins are down 500 basis points from their peak. There's already been a substantial increase in marketing spending. Price gaps have been narrowed. Why do you think to this point that's manifested itself in mixed results? Why don't you think the spending that's already occurred has been more effective?

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Irene Rosenfeld - Kraft Foods - CEO

Actually, David, I think the simple answer is we had a lot of ground to cover over these last couple years, just to get us back to even. And at the end of the day, there's no question that we've got some work to do to be able to provide greater shareholder value. I've talked about a couple of the issues; I think we need to bring our portfolio in line with consumer trends. We need to get our product quality beyond good enough to truly superior. And I think we need to invest to be able to talk about it so the consumers know we've done it. And the actions that we're talking about taking—and I'll speak more about at CAGNY—are designed to get us on the right track.

David Adelman - Morgan Stanley - Analyst

Secondly, Irene, you were talking about the benefits of independence. Two of the issues you raised are somewhat at odds with each other. And those are to be able to be more aggressive in buying back stock and yet to be able to use stock to make acquisitions, so if it were an either/or, where are you leaning? And tied into the share repurchase issue, would you be interested or keen in, perhaps, doing an aggressive share buy back going into the spin distribution window?

Irene Rosenfeld - Kraft Foods - CEO

I'm not prepared to talk today about our thoughts on capitol structure; that obviously will be an important area that we need to talk with you about going forward. But needless to say, our intent is to be able to provide predictable growth to our shareholders and we are focused on that as our mission.

David Adelman - Morgan Stanley - Analyst

And then lastly, just a question on the tax rate. I realize that you're losing some of the benefits to utilize your losses because of the cessation of the consolidation of your income tax return with Altria's commensurate with the spin, but your peer group has a consolidated tax rate of about 33%. You're talking 37%. Is there some structural reason why you can't apparently adopt strategies that your peer group implements?

Irene Rosenfeld - Kraft Foods - CEO

The simple answer is no, and we will continue to look at alternatives to drive down our tax rate. What we tried to do today in our release is foreshadow the reality that will be migrating toward the statutory rate over time.

David Adelman - Morgan Stanley - Analyst

Okay. Thank you.

Operator

Our next question is coming from Terry Bivens of Bear, Stearns.

Terry Bivens - Bear, Stearns - Analyst

Hi, good morning, everyone. Sorry, I have the time wrong as well. It is the afternoon. Two things, just in terms of pricing, it seems to me, I was trying to reconcile what looks to be a pretty robust price revenue per pound with Jim, what you were talking about which is less than half of a percent on pricing. What's the driver of that spread there?

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Jim Dollive - Kraft Foods - CFO

Well, I think the biggest piece you have to recognize... you're talking '06 here?

Terry Bivens - Bear, Stearns - Analyst

Right.

Jim Dollive - Kraft Foods - CFO

... is that pricing right now is a combination of the pricing increases we've taken on several categories and the pricing we reflected on cheese, which is actually a downward change to coincide with the commodity change.

Terry Bivens - Bear, Stearns - Analyst

Okay. So it's more --

Jim Dollive - Kraft Foods - CFO

A mix implication.

Terry Bivens - Bear, Stearns - Analyst

Okay. Irene this one's for you. Divestitures... Cream of Wheat... relatively small, I guess you've deemed it non strategic even though it had what I understand were pretty good margins. As you look at the portfolio, you've done kind of a similar divestiture with Milk Bone. As we look at some brands that may be small but with very high margins, a couple come to mind: A-1, for example, probably Grey Poupon. How are you looking at those kinds of brands? The trade-off between getting rid of something that may have very good margins but is outside of your growth strategy.

Irene Rosenfeld - Kraft Foods - CEO

Well, Terry, that is going to be part of our conversation at CAGNY, the portfolio composition plays an important role. But let me assure you that we are looking-- we have really done a very disciplined analysis of our entire portfolio, we'll continue to do that over time with an eye toward really identifying those businesses that fit with our long term strategy versus not. So more to come on that one.

Terry Bivens - Bear, Stearns - Analyst

Okay. Would you say finally, that divestitures probably had as important a place in your thinking as acquisitions? Would that be fair?

Irene Rosenfeld - Kraft Foods - CEO

Hard to say. I think the -- where we are headed now is to really lay out what we believe the opportunity is to leverage the breadth of our portfolio. I believe it is a source of competitive advantage and as we look at each of our businesses it will be in that context.

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Terry Bivens - *Bear, Stearns - Analyst*

Great. Well, we'll look forward to CAGNY, thank you.

Operator

Our next question is coming from David Palmer of UBS.

David Palmer - *UBS - Analyst*

Hi. Do you think Irene, that the company has too many businesses and brands and flat out that this has been a -- this has been overly cumbersome and distracting for the company? Is that something that you feel has constrained growth?

Irene Rosenfeld - *Kraft Foods - CEO*

My simple answer, David is no. I actually think that our scale is a competitive advantage. I think our job is to help leverage that scale more effectively than we have historically, that's going to be an important part of my message at CAGNY.

David Palmer - *UBS - Analyst*

Do you feel like in the past few years, the restructuring itself, all those plant closures and in fact perhaps even right sizing price gaps and other -- do you think that you're inheriting perhaps a little less distraction from that perspective? Is that part of what makes you optimistic here, that you can harness better growth through managing complexity?

Irene Rosenfeld - *Kraft Foods - CEO*

I don't think it's an either/or. There's no question that I do believe we have benefited from the restructuring that is mostly behind us. But at the end of the day, the issue for us is going to be able to execute against our strategies and we'll be focused on that.

David Palmer - *UBS - Analyst*

When I was looking at some of the marketing, advertising data... it looks like your share of voice is better than your market share, or higher than your market share in many categories. In other words, it doesn't look like it's not obvious that you're spending is below what it should be. Do you believe that it is below where you should be, maybe that, you know, as a category leader, that spending -- the total spending in the categories in which you participate is not where it should be, or is it really an innovation problem that you haven't been spending behind really good incremental news?

Irene Rosenfeld - *Kraft Foods - CEO*

To be honest with you, David, it's both. I think the challenge is whether we're spending on the right things and whether or not we actually are spending at adequate levels to get the message out. But at the end of the day, it's about refilling the pipeline with more trajectory changing ideas as I mentioned as well as our ability to tell consumers about that.

David Palmer - *UBS - Analyst*

Okay. Thanks very much.

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Operator

Our next question comes from Andrew Lazar of Lehman Brothers.

Andrew Lazar - *Lehman Brothers - Analyst*

Good afternoon.

Irene Rosenfeld - *Kraft Foods - CEO*

Hello, Andrew.

Andrew Lazar - *Lehman Brothers - Analyst*

Irene, I was wondering if I asked you to rank for us how you've been spending your time the past three months, really across kind of three buckets... I guess, one, looking at internal productivity and efficiency. Two, examining Kraft's existing portfolio in terms of examining strengths and weaknesses. And then lastly, looking at Kraft's position more broadly within a global food and staples industry.

Irene Rosenfeld - *Kraft Foods - CEO*

How about four, making sure that the organization is wired properly before we start. I'll tell you I've spent a great deal of time starting there. Because at the end of the day, it all starts with the leadership in the right structure. I have spent a great deal of time-- I think you've seen some of the actions associated with that work. The other related piece—I'll talk a little bit about that and give you more context in a couple weeks—is the opportunity to really assess our portfolio against its position in various geographies. That's a critical piece of our strategy going forward. So I'd say that's really been the two pieces, the two places I've most spent my time.

Andrew Lazar - *Lehman Brothers - Analyst*

Okay. And then just as a follow-up. The impact mix has been really sizable. I guess really the largest contributor to top line growth probably going back 10 quarters or so now. I do believe the impacts have been pretty broad based across the business. I guess realistically, how difficult will it be to sustain this type of mix contribution going-forward and does it put even more pressure obviously to get the volume side of the equation moving or is there a lot more left to the mix story that I'm not aware of?

Irene Rosenfeld - *Kraft Foods - CEO*

Well, I think the reality is that we've made good progress in mix. A lot of that has been due to pruning. Our opportunity going forward though is to continue to improve mix driven by investment in the fundamental properties of the products. That we have truly superior products.

Andrew Lazar - *Lehman Brothers - Analyst*

Thank you.

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Operator

Our next question is from Pablo Zuanic of JPMorgan.

Pablo Zuanic - JPMorgan - Analyst

Good afternoon, everyone.

Irene Rosenfeld - Kraft Foods - CEO

Hello, Pablo.

Pablo Zuanic - JPMorgan - Analyst

Irene, I guess I have a portfolio question for you. When I hear you talk about dumping low [inaudible] and getting the company back to growth, and the need to spend more, it sounds to me like the company would be over-earning. When I look at your profit margins compared to your peers, I would say your margin is quite relative to the type of franchise strength that you have in your portfolio. So can you tell me a little bit more about how can you get margins back up in some of the categories where you have strong brands, more than necessarily talk about how you want to get growth back? I'll give you an example. I look at Planters. I would say very strong brand equity there. You have premiums to private label of only 7%. So tell me a little bit about how you would focus on getting some of the programs back to profitability more than necessarily back to growth.

Irene Rosenfeld - Kraft Foods - CEO

I think a key piece of this, Pablo, is our ability to enhance our margins by addressing our fundamentals of our products as I mentioned a moment ago: Our product quality, the relevance of our products, and the pipeline of our products. So we have some very strong brands that we believe we can build on in the future. But we need to make sure that the overall bundle of those brands and the offerings that we're putting out to consumers really truly have a point of difference and then we believe we certainly can charge for that. Again, that's an important subject that I'll spend some time on in a couple weeks.

Pablo Zuanic - JPMorgan - Analyst

Just to follow-up, in terms of, you know, when you talk about the need to spend more. Where are those resources going to come from? Do you have back ends in trade spending that can be relocated to marketing innovation? Or are these new expenses that would result in lower margins?

Irene Rosenfeld - Kraft Foods - CEO

If you'll just bear with me, that's something I'll cover with you when we give our guidance at CAGNY.

Pablo Zuanic - JPMorgan - Analyst

Okay. And one last one then. People ask you about divestitures, I will ask you about acquisitions. What would be the criteria for acquisitions, in terms of product lines, in terms of geographies, or is real acquisition something that's two years out and you're focused first on what you have at hand first?

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Irene Rosenfeld - *Kraft Foods - CEO*

Let me not be difficult. I understand the question; please let me talk to you about that very subject which, of course, is important to our future. Let me talk about it in the context of our overall strategies.

Pablo Zuanic - *JPMorgan - Analyst*

Okay.

Irene Rosenfeld - *Kraft Foods - CEO*

In a couple weeks, all right?

Pablo Zuanic - *JPMorgan - Analyst*

One thing that's a comment is that you have a lot to talk about at CAGNY and you only have 60 minutes. So good luck.

Irene Rosenfeld - *Kraft Foods - CEO*

I hope I laid it out well enough for you.

Operator

Our next question comes from John McMillin of Prudential Equity.

John McMillin - *Prudential Equity - Analyst*

Hello, everybody.

Irene Rosenfeld - *Kraft Foods - CEO*

Hello John.

John McMillin - *Prudential Equity - Analyst*

Just a comment before we begin. It would be nice to get an organic sales number, Jim, kind of like right up front. I guess it's a 1.8 number if you strip out acquisition benefits for the quarter. It would be nice to kind of get those numbers for the quarter and for the year, kind of right up front in the press release. I know in the past you've kind of included acquisitions -- or excluded divestitures and included acquisitions. But it would be nice to get that and also if we could have a conference call a little closer to the earnings, I know today was a special and different day. But it would-- I think-- it would be appreciative. So that's my comment. Irene, I asked you about the new product pipeline last time you were here, and I'm sure you're going to say more at CAGNY. But have you -- the thing that's stimulated I think last time you were -- a touch downbeat on. Can you talk about the new product pipeline at all?

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Irene Rosenfeld - Kraft Foods - CEO

Again, I think the focus John is going to be to step up the contribution of the new products. And in that context, we need to be looking at bigger ideas. I'm very encouraged when I see products like South Beach or I see lines like our 100 calorie packs which have been exceptionally successful for us. As we move forward here we need more ideas like that that have breadth and have enough size to them to make a difference to our overall performance. And my sense is, and I'll talk a lot more about this in a few weeks is that by focusing on ideas that truly meet consumer needs we can accomplish that.

John McMillin - Prudential Equity - Analyst

I calculate a 1.8 number in the quarter if I strip out the European biscuit acquisition. I guess you called the quarterly performance mixed, Irene, so you're hoping to do a little bit better than 1.8 numbers. Can you target what you're hoping to do?

Irene Rosenfeld - Kraft Foods - CEO

Well, again, let me not get into any kind of guidance today. I called it mixed, simply because I was disappointed with the way the North American business performed as we exited the year. And so the slowing of that momentum was of concern to me. I actually feel quite good about our international business.

John McMillin - Prudential Equity - Analyst

And just, you know, you were part of this Kraft road show, and a big part of it, which really emphasized the benefits of scale. And certainly there are benefits; I'm watching Proctor and Gillette do it. I'm kind of wondering now a couple years later as I'm struggling to see your scale benefits, where you stand on that. You know, and again, today Altria put in their press release right up front. Reason number one for the spin-off: to allow you to use stock to make acquisitions. Were you an input in that press release? And where do you stand? Because I think the market is having trouble seeing some of these benefits of scale that were present 4 or 5 years ago.

Irene Rosenfeld - Kraft Foods - CEO

Well, obviously, Altria has seen our plan and they have a good sense of what we're looking at over the next couple years. But as I said before, I really do continue to believe that our scale is a unique source of competitive advantage. We have strong market positions in highly complimentary categories. Our opportunity is to take better advantage of that and that continues to be something in front of us, and again, it's going to be an important area that I'm going to talk about in a couple weeks.

John McMillin - Prudential Equity - Analyst

Okay, see you then.

Jim Dollive - Kraft Foods - CFO

John, one quick point, John. When we talk organic revenue, that is like-for-like revenue, because it does strip out the impact of the acquisitions. You're remembering old ongoing measures.

John McMillin - Prudential Equity - Analyst

So the 3 number that you back into in the press release...

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Jim Dollive - Kraft Foods - CFO

Strips out the impact of acquisitions.

John McMillin - Prudential Equity - Analyst

So that was the organic sales growth?

Jim Dollive - Kraft Foods - CFO

Yes.

Irene Rosenfeld - Kraft Foods - CEO

Yes.

John McMillin - Prudential Equity - Analyst

Thank you.

Operator

Our next question comes from Chris Growe of AG Edwards.

Chris Growe - A.G. Edwards - Analyst

Good evening.

Irene Rosenfeld - Kraft Foods - CEO

Hello, Chris.

Chris Growe - A.G. Edwards - Analyst

Hi. I just have a couple questions for you. For starters -- and I kind of put two questions together, but you talked about so far in a couple instances, some quality upgrades or maybe perhaps the need for that and then also, I was curious along those lines, if -- how your price gaps look generally across the business today. Is that an incremental need for Kraft to address in 2007?

Irene Rosenfeld - Kraft Foods - CEO

I continue to feel that quality is one of our single biggest opportunities both in terms of making sure that we have truly superior products, not just products that are good enough, as well as making sure that we have built enough consumer relevant benefit into our offerings, but I really believe for the most part we have addressed the fundamental price gap issues across the portfolio.

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Chris Growe - A.G. Edwards - Analyst

Okay, and then if I'm reading you correctly the quality upgrades and perhaps the need for that, that would seem to imply that if it's an opportunity it may be a distraction or impediment today, is that correct?

Irene Rosenfeld - Kraft Foods - CEO

I think it is, yes.

Chris Growe - A.G. Edwards - Analyst

Okay. And then the last question I have was relative to your top line growth and I know you've outlined the need for a little better growth and looking across the business and getting 3% revenue growth and a lot of that coming from pricing and mix, I guess should we presume from that comment that volume is a more important metric for you that we should be looking at volume growth, going-forward to assess the strength of Kraft and your plan?

Irene Rosenfeld - Kraft Foods - CEO

I'm not suggesting that at all. We'll give you specific targets as we go forward here. But it's both volume and revenue that will continue to be important to us as we move forward. So when I talk about top line, it's about both of those metrics. Again our volume per se continues to have some important pruning of lower margin items in it. And the impact of that going-forward will be less than what we saw in 2006.

Chris Growe - A.G. Edwards - Analyst

Is that a point or so in 2006?

Irene Rosenfeld - Kraft Foods - CEO

I'm not going to comment on that today. But well be talking about that.

Chris Growe - A.G. Edwards - Analyst

Okay.

Jim Dollive - Kraft Foods - CFO

In terms of the results, Chris, yeah, it was around 2 points.

Chris Growe - A.G. Edwards - Analyst

2 points, I'm sorry. I guess maybe just one follow-up to the tax rate, the increase from '06 to '07 and '07 to '08, is that all just a loss from Altria or is there more at work in there?

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Jim Dollive - Kraft Foods - CFO

There's more at work in there, because the '06 rate benefited from one-time adjustments and a lot of those deal with things like resolution of local tax audits and other deferred tax changes. We don't anticipate similar adjustments in '07 especially with our adoption of Fin 48. So that plays into it. The other piece that really -- in '07 we will have some benefit of our effective tax rate being consolidated with Altria for a certain period of time. '08 is when we get the full impact of no longer having that benefit.

Chris Growe - A.G. Edwards - Analyst

I was thinking of something like a 33% tax rate initially for '06. So the increase to 35.5%, is that the loss from Altria? Am I reading that the right way?

Jim Dollive - Kraft Foods - CFO

Not for next year. Most of it going into '07 will be due to the absence of those one-time adjustments.

Chris Growe - A.G. Edwards - Analyst

Okay. That's helpful. Thanks a lot.

Operator

Our next question comes from David Driscoll of Citigroup Investment.

David Driscoll - Citigroup Investment - Analyst

Hi. Good afternoon, everyone.

Irene Rosenfeld - Kraft Foods - CEO

Good afternoon, James.

David Driscoll - Citigroup Investment - Analyst

A couple quick questions and then a bigger picture question for you, Irene. Number one, how much will Kraft incur in direct costs related to the spin-off?

Irene Rosenfeld - Kraft Foods - CEO

Jim, you can handle that. We gave you some numbers in the release associated with --

Jim Dollive - Kraft Foods - CFO

There are some costs, they're not that onerous. It's not enough to affect a number or change any guidance, but there will be some one-time setup costs, there will also be one-time benefits and for the most part they'll net.

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David Driscoll - Citigroup Investment - Analyst

Irene, I -- you're now -- congratulations on being elected to Chairman. Can you give us some insight as to whether or not Kraft will issue a parting dividend i.e. something beyond the regular dividend before March 30 of any sizable nature?

Irene Rosenfeld - Kraft Foods - CEO

The answer is no. I think all the information that you would need to have on that subject is on the Altria website.

David Driscoll - Citigroup Investment - Analyst

This is a Kraft related issue for the Kraft board of directors not Altria, is that correct?

Jim Dollive - Kraft Foods - CFO

Certainly the Kraft board would have to vote on any dividend but that is not the intent right now. There is no activity to make any unique distribution.

David Driscoll - Citigroup Investment - Analyst

Very good. And the bigger picture question and a number of callers have already tried to address it. If I can give my stab at this. Your recent sale of the hot cereals, your company cited a need for better focus. This business was extraordinarily small. I think you cited in the press release \$60 million in sales. I don't really understand how you get better focused with a \$60 million annual revenue divestiture given the size of Kraft overall. So, Irene, could you just talk to us about what is focus and can you give us an example as to a division that you think actually has focus at Kraft?

Irene Rosenfeld - Kraft Foods - CEO

Yep, I'd say probably our single most crowning example is the work that our convenient meals group is doing. I think they have got what you may say is a variety of different products ranging from meats, from cold cuts to hot dogs to macaroni and cheese and they've done an excellent job of harnessing those various products in service of consumer desires for more convenient food. And as we move forward here, that's what we're looking for, we're looking for the opportunity to take the breadth of our portfolio and our understanding of consumer needs and bring them together in a way that we believe can give us competitive advantage. So I think we've seen good examples, whether it's in the convenient meals business, in cold cuts or macaroni and cheese or pizza, and as we go forward here, we see similar opportunities to apply some of that same thinking to others of our core sectors.

David Driscoll - Citigroup Investment - Analyst

Thanks a lot, everyone.

Operator

Our next question is coming from Edgar Roesch of Banc of America.

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Edgar Roesch - *Banc of America - Analyst*

Hi. Good evening.

Irene Rosenfeld - *Kraft Foods - CEO*

Good evening.

Edgar Roesch - *Banc of America - Analyst*

I look forward to hearing more Irene at the CAGNY conference, and I think most of those plans will relate to Kraft's relationship with consumers. Just curious in your review of the business, if the relationship with retail customers, you found to be a particular strength or something where you're going to have to invest in the future?

Irene Rosenfeld - *Kraft Foods - CEO*

I think it's actually a strength today, Ed, and I think it's actually one we're going to continue to invest in over time. Because once again I believe our sales organization is a source of competitive advantage, and so you'll see us talking about that.

Edgar Roesch - *Banc of America - Analyst*

Okay. Excellent. And then just one small question about beverages, you know we've grown accustomed to the ready-to-drink side being pretty soft and it sounds like it improved in the 4th quarter, can you speak to that a little bit?

Irene Rosenfeld - *Kraft Foods - CEO*

As we told you, we had strong powdered beverage performance, which we continue to feel very good about. And we started to see some recovery in ready-to-drink as we launched some new items as we focus on some value added benefits. We believe that we have some good items coming in the pipeline that will continue to help that business.

Edgar Roesch - *Banc of America - Analyst*

Okay. Thanks very much.

Operator

Thank you, our next question is coming from Eric Serotta of Merrill Lynch.

Eric Serotta - *Merrill Lynch - Analyst*

Good afternoon, on your first conference call since you've been back, Irene, you spoke about breaking down the barriers to growth, I think was your phrase. Today I think in response to Andrew's question, you referred to making sure the organization is wired for growth as being a core focus of your time over the past 7 months, if I'm correct. Where would you assess you are today in terms of those processes, do you still see those barriers to growth being there? Is part of the plan that you're going to be announcing going to be changing the organizational structure to further facilitate growth?

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Irene Rosenfeld - Kraft Foods - CEO

Actually, Eric, I think the -- I have no intentions of making significant structural changes that the opportunity going-forward really is much more working on the leadership, the culture and the operating practices, and I will talk quite a bit about that. The progress that we've made and the areas of opportunity going forward. I'll talk quite a bit about is that at CAGNY.

Eric Serotta - Merrill Lynch - Analyst

Okay. Jim, with regards to convenient meals, it looked like you had a significant drop-off in your profitability, your operating company income and your OCI margin this quarter both relative to last year when you had the extra week and relative to even 2 years ago. The press release cited the -- some targeted investments and higher input costs. How much of a factor were the investments in capacity and marketing and the like behind that profitability decline, and how much of it was in rough terms, how much of it was related to other factors like input costs or something else that we're missing? Market share?

Jim Dollive - Kraft Foods - CFO

Well, the answer, it's a little bit of everything unfortunately. The thing we should feel good about with that particular segment is the momentum they've had on the top line and the initiatives, the pipeline they have to continue that momentum. We certainly did see some higher input costs, a portion of that was LIFO related, so we'll get some of that back as we go forward, but it would -- overall, it is a well managed business right now and I wouldn't be overly concerned about the margin profile as a sustainable issue in '07.

Operator

Our next question comes from Ann Gurkin of Davenport. I was wondering if you could discuss the strategy for the Oscar Mayer business? What was your outlook for supply of raw materials, pricing, margins, particularly as we move through the year?

Irene Rosenfeld - Kraft Foods - CEO

I'm not going to comment on that specifically, Ann. I will tell you we feel good about that business. We continue to see good progress, good growth from it as we focus on ideas like deli shaves that are very much on trend with consumer behavior, and as you look at our pipeline for 2007, I think you'll see more ideas along that line.

Ann Gurkin - Davenport and Company - Analyst

Okay. And Jim, can you give us the capital spending number for '07 yet?

Jim Dollive - Kraft Foods - CFO

For '07?

Ann Gurkin - Davenport and Company - Analyst

Yes.

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Jim Dollive - Kraft Foods - CFO

Well, in '06 we spent about \$1.2 billion, which is about what we spent last year, so if we just continue that trend we'd be sort of in that \$1.2 billion range.

Ann Gurkin - Davenport and Company - Analyst

Thanks.

Operator

Our next question is coming from Eric Katzman of Deutsche Bank.

Eric Katzman - Deutsche Bank - Analyst

Good afternoon, everybody.

Irene Rosenfeld - Kraft Foods - CEO

Hello Eric.

Eric Katzman - Deutsche Bank - Analyst

I guess a lot of my broader picture kind of questions have been answered already, so let me try a few more detailed. Jim, I think you said that the cash charges are going to be down about \$400 million. Can you lay out what the cash cost of the charges are now going to be in '07 and '08?

Jim Dollive - Kraft Foods - CFO

I don't have that specific number in front of me right now. I don't think we've given guidance per year for the cash implications, the difference though, the primary difference between the previous number and this number, we're able to execute these programs without much money, particularly in the sense of things like severance which is a cash cost as opposed to some of the asset write-off components.

Eric Katzman - Deutsche Bank - Analyst

I think you had, because I have \$800 million in '07 and \$500 million in '08.

Jim Dollive - Kraft Foods - CFO

We'll get back to you on that one, Eric.

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Eric Katzman - Deutsche Bank - Analyst

Okay. Because I do think that's important. Second, can you talk about with the overall restructuring charge being lower; are you going to reverse that? Or have you -- or was that already put into this number? Or the -- you know, the balance sheet that you reported?

Jim Dollive - Kraft Foods - CFO

No. These are -- this -- the chart you've already taken are actually, they're done, and what we're doing is, we're talking about future charges. So when we lower the program from 3.7 to 3 -- and we've already 1.6. So we're talking about what else is left? I'm not sure where you're going with this.

Eric Katzman - Deutsche Bank - Analyst

Okay okay. All right. And then another question is, how is it that Tassimo had such a large charge. I mean, you weren't even making the machine. I don't understand how there could be a \$250 million dollar charge there.

Jim Dollive - Kraft Foods - CFO

There's a healthy amount of technology that goes into that disk and we had to create the asset base to do that both in Europe and the U.S. And when we looked -- we did that in the expectation of a fairly large business as Irene mentioned. We've taken the -- we've adjusted that now to right size it for the appropriate opportunity.

Eric Katzman - Deutsche Bank - Analyst

Okay. And then the last question to Irene. I guess it's a bigger picture, but it seems like, and this kind of goes back to I guess some of the other questions, but one comment about Kraft that we've always heard is there's two silos, there's international versus domestic, the two never got along. It was two fiefdoms. Is that the kind of the walls or maybe it was even between divisions? Are those the kind of the walls that need to be broken down in order for the scale argument that you're making to flourish and within the company and, therefore, win in the market?

Irene Rosenfeld - Kraft Foods - CEO

No, actually, I think we've made terrific progress over the last couple years in truly becoming a global company. I feel very comfortable that as we look at the global enterprise, we're able to look at it on that basis. The kinds of opportunities I'm talking about are really, as I said earlier, the ability to better leverage the breadth of our portfolio to be able to achieve greater competitive advantage. I think that's as much about aligning all the objectives across the company with the appropriate focus as it is about anything else structural.

Eric Katzman - Deutsche Bank - Analyst

Is that -- last question. Is that, do you think that the biggest business has been kind of with either -- would you say it's either product or would it be sales force and distribution execution?

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Irene Rosenfeld - Kraft Foods - CEO

Well, again, that's a lot of what I want to talk about at CAGNY. I've spent a lot of time trying to understand what we believe are the root causes, of the fact that we haven't performed up to our expectations. So I'll share that with you as part of the context to the strategies that we are going to lay out at CAGNY.

Eric Katzman - Deutsche Bank - Analyst

Okay. See you in a few weeks.

Operator

Our next question comes from Steven Kron from Goldman Sachs.

Steven Kron - Goldman Sachs - Analyst

Thanks. Good afternoon.

Irene Rosenfeld - Kraft Foods - CEO

Good afternoon.

Steven Kron - Goldman Sachs - Analyst

A couple of questions. First in the release you talk about certainly some pickup in brand support and R&D efforts as you look to build this innovation pipeline that you talked about. And Irene, I guess you said it's going to take some time here, I guess could you give a little bit of insight first where this R&D effort is -- where the allocation is really going at this point. And I guess you can give your insight as to what you think might be a fair time period to wait before we see some of these R&D efforts translate into some better new product innovations, sort of a speed to market if you will.

Irene Rosenfeld - Kraft Foods - CEO

I think that is a very fair question, Steve, and I'm going to beg your indulgence in waiting until I talk about it as part of our overall strategy at CAGNY. But we will talk about it.

Steven Kron - Goldman Sachs - Analyst

Okay. And then secondly just as a follow-up to the restructuring program changes, did any of these changes come from the more decentralized or I guess autonomous management structure that we've seen kind of put in place at this point?

Irene Rosenfeld - Kraft Foods - CEO

No, when I talked about there is much more about decision making than it is about fundamental structure. Yeah, I meant from a decision making standpoint did those changes in what restructuring would occur come from managers that may have been closer to the businesses at the time. Not sure. Ask your question again, I'm not sure I understand it.

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Steven Kron - *Goldman Sachs - Analyst*

We've seen some management changes; it's a bit more decentralized at this point. And that's supposed to make the company nimble in the decision make progress. I'm just wondering, these restructuring programs that were put into place a few years ago, now that we have people closer to the business, did that speed up and change the decision making process?

Irene Rosenfeld - *Kraft Foods - CEO*

No, the kind of opportunities that I'm alluding to when I talk about the decentralized decision making is a lot more about in-market decision; alot about product decisions, about marketing decisions. The restructuring program was about some fundamental changes in our overall assets and infrastructure and that really needs to be done at a high level and that's how it was done.

Steven Kron - *Goldman Sachs - Analyst*

Okay. Thanks.

Operator

Our next question is coming from Jonathan Feeney of Wachovia.

Jonathan Feeney - *Wachovia - Analyst*

Good evening.

Irene Rosenfeld - *Kraft Foods - CEO*

Good evening.

Jonathan Feeney - *Wachovia - Analyst*

Irene, just a couple of reasonably easy ones. I guess, what were you most pleasantly surprised by, since you've -- in the past 7 months, and maybe what are you -- have you been most sort of unpleasantly surprised by?

Irene Rosenfeld - *Kraft Foods - CEO*

Again, that's an important part of the context to our overall strategies, but the thing I'm most pleasantly surprised by continues to be that this company has an enormous number of strengths, and our opportunity is really to figure out how to harness those strengths to achieve predictable growth. That's the opportunity I want to talk about at CAGNY.

Jonathan Feeney - *Wachovia - Analyst*

And nothing unpleasant I guess.

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Irene Rosenfeld - Kraft Foods - CEO

Well I think a lot of the unpleasantness I've been sort of alluding to as we went on.

Jonathan Feeney - Wachovia - Analyst

Okay. Then let me ask you a more technical question. You mentioned scale a couple times, I think in answer to John's question, and I guess if you could just philosophically maybe talk about where scale could sit in this business. Is it in the revenue line, where you scale with customers, that allows you to cross-sell? Or is it at the distribution line where you can sort of Pepsi-ize or Proctor-ize the distribution and get yourselves on a different plain in terms of cost structure than some of your competitors?

Irene Rosenfeld - Kraft Foods - CEO

All of the above. I think the benefits of scale play up and down the P&L. And I think the opportunity we have perhaps going forward is that we have historically focused on it on the coffee side. I see a tremendous opportunity to be able to leverage it on the revenue side as well.

Jonathan Feeney - Wachovia - Analyst

So would you say there's more opportunity incrementally on the revenue side, than on the cost side?

Irene Rosenfeld - Kraft Foods - CEO

I think again, I think it's going to play to both. But the discipline that I'm trying to bring to the organization is to focus as much on effectiveness as we are on efficiency, and I think it's a combination of those two objectives that really will give us the necessary leverage.

Jonathan Feeney - Wachovia - Analyst

Thanks, if I could just ask one of Jim. You mentioned specifically in the press release that administrative services can be secured from a third party at or similar cost than the Altria. I was a little surprised. Does that maybe indicate there could be chances for cost savings in that overhead?

Jim Dollive - Kraft Foods - CFO

We're certainly going to look at that, and I would point to it as an example, last year we announced the outsourcing of our IT infrastructure to EDS. And those are the kinds of opportunities we have to look forward on a go-forward basis to drive efficiency as much as we possibly can.

Jonathan Feeney - Wachovia - Analyst

Okay, thanks very much.

Operator

Our next question is coming from Alexia Howard of Sanford Bernstein.

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Alexia Howard - Sanford Bernstein - Analyst

Hello there.

Jim Dollive - Kraft Foods - CFO

Hello.

Alexia Howard - Sanford Bernstein - Analyst

Hi. Question on margins, it seems to me after a couple quarters where growth margins particularly seem to be improving year over year. This last quarter, the fourth quarter, has definitely seen a stabilization on that front. And could you maybe go into more of the drivers on that? It seems to me as if we were -- we haven't talked a lot about commodity cost inflation on this call. It seems to me that after very hefty commodity cost inflation in 2004 and 2005, things have gone on to a more even keel in 2006. Is that true and if so, what is it that caused the stabilization of the gross margins this time around?

Jim Dollive - Kraft Foods - CFO

Well, I'll start and I think the big difference we saw in '06 relative to the prior two years really deals with the dairy component because dairy costs were exceptionally high in the early -- 2, 3 years ago, they moderated last year and that influences for us the total profile. We obviously have the same kind of pressures that everyone else does when it comes to energy costs and the implications of that. And we've seen that carry through quite a bit into areas like packaging material. Packaging material, they're still catching up, I think, on some of those charges even though we've seen energy moderate a bit. Obviously, we go back a few years ago, we had to address our price gaps at the same time, and that's what really put the margin squeeze into that '04, '05 time period. In '06 we are in a much better place as far as our overall price gap was, and some of the initiatives we had behind some of our business programs. And that's enabled us to be more positive in terms of passing on those commodity costs.

Alexia Howard - Sanford Bernstein - Analyst

Great, thank you. And then in terms of the metrics that you've focused on and this is more to Irene, when you're thinking about what you worry about on a week to week or month to month basis, what are the key metrics that you're using to get a handle on how the organization is progressing and how the financial performance is unfolding?

Irene Rosenfeld - Kraft Foods - CEO

That's something I'm going to talk quite a bit at CAGNY, Alexia. I think that the simple answer is there will be fewer of them and we'll be very clear about what they are.

Alexia Howard - Sanford Bernstein - Analyst

Okay, great. Thank you very much.

Operator

Thank you. Our next question is coming from Todd Duvick of Banc of America.

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Todd Duvick - *Banc of America - Analyst*

Good afternoon. A couple very quick questions. I understand you're not going to comment on any changes in capital structure, but I just want to know -- you have a couple of significant debt maturities coming due the middle of this year. Is it safe to assume that those will be refinanced?

Jim Dollive - *Kraft Foods - CFO*

Well we will certainly be looking at that and we'll do that in conjunction with that total discussion. I think it would be nice to do that certainly once we've completed the process, and can do that -- we're going to be out talking to our credit agencies pretty quickly here now that Altria has announced the spin. I'd like to have that consideration done once we go through that discussion with the credit agencies and see where we shake out with our rating as well.

Todd Duvick - *Banc of America - Analyst*

Okay. And I assume that an investment grade rating is something you plan to hang on to?

Jim Dollive - *Kraft Foods - CFO*

Well, we'll certainly look at that. I think that's best answered in the context of the overall capital structure and where we want to go with that.

Todd Duvick - *Banc of America - Analyst*

Right. Okay. And just one philosophical question, it seems to me that over the past few years, operationally you've had a couple challenges with respect to the price gaps between your brand of products and some of the private label products. I'm just wondering from a management standpoint do you feel that your managers have enough information in terms of the competitors to really make the right decisions either ahead of time or in real time?

Irene Rosenfeld - *Kraft Foods - CEO*

I think the simple answer to that is yes Todd, but I think a piece of our assessment as we look across the portfolio is, we've identified some opportunities for even more disciplined analysis as we make some of those decisions.

Todd Duvick - *Banc of America - Analyst*

Okay.

Irene Rosenfeld - *Kraft Foods - CEO*

And we need to provide our managers with those tools.

Todd Duvick - *Banc of America - Analyst*

Very good. Thank you.

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Operator

Thank you. There appear to be no further questions. At this time I would like to turn the floor back over to management for any closing remarks.

Jim Dollive - Kraft Foods - CFO

Thanks very much for everybody joining us today. If you have any follow-up questions, we'll be available this evening. Thanks very much for joining us, and we'll see you at CAGNY.

Operator

Thank you. This concludes today's Kraft Foods conference call. You may now disconnect your lines at this time and have a wonderful day.

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