USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported. Estimates are used when accounting for sales discounts, rebates, allowances and incentives, product liabilities, income taxes, depreciation, amortization, employee benefits, contingencies and intangible asset and liability valuations. For instance, in determining annual pension and post-employment benefit costs, the Company estimates the rate of return on plan assets, and the cost of future health care benefits. Actual results may or may not differ from those estimates.

The Company follows the provisions of U.S. GAAP when recording litigation related contingencies. A liability is recorded when a loss is probable and can be reasonably estimated. The best estimate of a loss within a range is accrued; however, if no estimate in the range is better than any other, the minimum amount is accrued.

ANNUAL CLOSING DATE

The Company follows the concept of a fiscal year, which ends on the Sunday nearest to the end of the month of December. Normally each fiscal year consists of 52 weeks, but every five or six years the fiscal year consists of 53 weeks, as was the case in 2009 and will be the case again in 2014.

RECLASSIFICATION

Certain prior period amounts have been reclassified to conform to current year presentation.

2. Cash, Cash Equivalents and Current Marketable Securities

At the end of 2010 and 2009, the amortized cost of cash, cash equivalents and current marketable securities were comprised of:

	Amortized Cost	
(Dollars in Millions)	2010	2009
Cash	$ 2,293	2,517
Government securities and obligations	22,349	13,370
Corporate debt securities	225	426
Money market funds	2,135	1,890
Time deposits	656	1,222
Total cash, cash equivalents and current marketable securities	**$27,658**	**19,425**

The estimated fair value was the same as the amortized cost as of January 2, 2011. The estimated fair value was $19,426 million as of January 3, 2010 reflecting a $1 million unrealized gain in government securities and obligations.

As of January 2, 2011, current marketable securities consisted of $8,153 million and $150 million of government securities and obligations and corporate debt securities, respectively.

As of January 3, 2010, current marketable securities consisted of $3,434 million and $181 million of government securities and obligations and corporate debt securities, respectively.

Fair value of government securities and obligations and corporate debt securities were estimated using quoted broker prices in active markets.

The Company invests its excess cash in both deposits with major banks throughout the world and other high-quality money market instruments. The Company has a policy of making investments only with commercial institutions that have at least an A (or equivalent) credit rating.

3. Inventories

At the end of 2010 and 2009, inventories were comprised of:

(Dollars in Millions)	2010	2009
Raw materials and supplies	$1,073	1,144
Goods in process	1,460	1,395
Finished goods	2,845	2,641
Total inventories	**$5,378**	**5,180**

4. Property, Plant and Equipment

At the end of 2010 and 2009, property, plant and equipment at cost and accumulated depreciation were:

(Dollars in Millions)	2010	2009
Land and land improvements	$ 738	714
Buildings and building equipment	9,079	8,863
Machinery and equipment	18,032	17,153
Construction in progress	2,577	2,521
Total property, plant and equipment, gross	$30,426	29,251
Less accumulated depreciation	15,873	14,492
Total property, plant and equipment, net	**$14,553**	**14,759**

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2010, 2009 and 2008 was $73 million, $101 million and $147 million, respectively.

Depreciation expense, including the amortization of capitalized interest in 2010, 2009 and 2008, was $2.2 billion, $2.1 billion and $2.0 billion, respectively.

Upon retirement or other disposal of property, plant and equipment, the costs and related amounts of accumulated depreciation or amortization are eliminated from the asset and accumulated depreciation accounts, respectively. The difference, if any, between the net asset value and the proceeds are recorded in earnings.