KRAFT FOODS INC
Form 424B2
February 03, 2010
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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are part of an effective registration statement filed with the Securities and Exchange Commission under the Securities Act of 1933. This preliminary prospectus supplement and the accompanying prospectus are not offers to sell these securities nor solicitations of offers to buy these securities in any jurisdiction where such offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(2)
Registration No. 333-147829

Subject to Completion, Dated February 3, 2010

Prospectus Supplement to Prospectus dated December 4, 2007

Kraft Foods Inc.

$ % Notes due

$ % Notes due

$ % Notes due

$ % Notes due

This is an offering of $ of % Notes due , $ of % Notes due , $ of % Notes due and $ of % Notes due to be issued by Kraft Foods Inc., a Virginia corporation. We will pay interest on the % Notes due on and of each year beginning on , 2010. We will pay interest on the % Notes due on and of each year beginning on , 2010. We will pay interest on the % Notes due on and of each year beginning on , 2010. We will pay interest on the % Notes due on and of each year beginning on , 2010. The notes will be issued in registered form and only in denominations of $2,000 and integral multiples of $1,000 in excess thereof.

If we experience a change of control triggering event, we may be required to offer to purchase the notes from holders. See Description of Notes Change of Control in this prospectus supplement. The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior unsecured indebtedness.

Please read the information provided under the caption Description of Notes in this prospectus supplement and Description of Debt Securities in the accompanying prospectus for a more detailed description of the notes.

See Risk Factors beginning on page S-6 of this prospectus supplement to read about important factors you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Note	Total	Per Note	Total	Per Note	Total	Per Note	Total
Initial public offering price	%	$	%	$	%	$	%	$
Underwriting discount	%	$	%	$	%	$	%	$
Proceeds, before expenses, to Kraft Foods	%	$	%	$	%	$	%	$

The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from , 2010 and must be paid by the purchasers if the notes are delivered after , 2010.

The underwriters expect to deliver the notes to purchasers in registered book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank S.A./N.V., as operator of the EuroclearSystem, and its indirect participants, against payment in New York, New York on or about , 2010.

Joint Book-Running Managers

Barclays Capital **BBVA Securities** **BNP PARIBAS**

Citi **Credit Suisse** **Deutsche Bank Securities**

HSBC **RBS** **SOCIETE GENERALE**

Prospectus Supplement dated , 2010.

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Prospectus Supplement

Prospectus

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any permitted free writing prospectus we have authorized for use with respect to this offering. No one has been authorized to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus or any document incorporated by reference is accurate as of any date other than the date on the front cover of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

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In connection with this offering, Barclays Capital Inc., BBVA Securities Inc., BNP Paribas Securities Corp., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., HSBC Securities (USA) Inc., RBS Securities Inc. and SG Americas Securities, LLC or their respective affiliates may over-allot or effect transactions which stabilize or maintain the market price of the notes at levels which might not otherwise prevail. In any jurisdiction where there can only be one stabilizing agent, Deutsche Bank Securities Inc. or its affiliates shall effect such transactions. This stabilizing, if commenced, may be discontinued at any time and will be carried out in compliance with the applicable laws, regulations and rules.

The distribution of this prospectus supplement and the accompanying prospectus and the offering or sale of the notes in some jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come are required by us and the underwriters to inform themselves about and to observe any applicable restrictions.

This prospectus supplement and the accompanying prospectus may not be used for or in connection with an offer or solicitation by any person in any jurisdiction in which that offer or solicitation is not authorized or to any person to whom it is unlawful to make that offer or solicitation.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement contains the terms of this offering of notes. This prospectus supplement, or the information incorporated by reference in this prospectus supplement, may add, update or change information in the accompanying prospectus. If information contained in this prospectus supplement, or the information incorporated by reference in this prospectus supplement, is inconsistent with the accompanying prospectus, this prospectus supplement, or the information incorporated by reference in this prospectus supplement, will apply and will supersede that information in the accompanying prospectus.

It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents we have referred you to under the caption Where You Can Find More Information in the accompanying prospectus and under the caption Incorporation by Reference in this prospectus supplement.

Unless otherwise indicated or the context otherwise requires, references in this prospectus to Kraft Foods, the Company, we, us and our refe Kraft Foods Inc. and its subsidiaries. References in this prospectus supplement to Cadbury refer to Cadbury plc and its subsidiaries. We refer to Kraft Foods and its subsidiaries, including Cadbury and its subsidiaries, after the completion of the Cadbury acquisition as the combined company. Trademarks and servicemarks in this prospectus supplement and the accompanying prospectus appear in italic type and are the property of or licensed by us.

In this prospectus supplement, references to $, U.S. dollars and dollars are to the lawful currency of the United States and references to £, pounds sterling, pounds and pence are to the lawful currency of the United Kingdom.

PRESENTATION OF FINANCIAL INFORMATION

Kraft Foods financial statements included or incorporated by reference herein have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP). Cadbury s financial statements included or incorporated by references herein have been prepared in accordance with International Financial Reports Standards (IFRS) as issued by the International Accounting Standards Board (IASB). IFRS differs from U.S. GAAP in a number of significant respects. For a discussion of certain significant differences between IFRS and U.S. GAAP, see Summary of Significant Differences Between IFRS and U.S. GAAP.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this prospectus supplement or the accompanying prospectus may constitute forward-looking statements. All statements in this prospectus supplement or the accompanying prospectus, other than those relating to historical information or current condition, are forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from those indicated in any such statements. Such factors include, but are not limited to, continued volatility of input costs, pricing actions, increased competition, our ability to differentiate our products from retailer brands, unanticipated expenses in connection with litigation, settlement of legal disputes, regulatory investigations or enforcement actions, our indebtedness and ability to pay our indebtedness, the shift in consumer preference to lower priced products, risks from operating outside the United States, tax law changes, failure to realize the expected benefits of the acquisition of Cadbury, significant transaction costs and/or unknown liabilities and general

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economic and business conditions that affect the combined company following the completion of the acquisition of Cadbury. For additional information on these and other factors that could affect our forward-looking statements, see also the section of this prospectus supplement entitled Risk Factors and the risk factors in our filings with the SEC, including our most recently filed Annual Report on Form 10-K and subsequent reports on Forms 10-Q and 8-K incorporated by reference herein. We disclaim and do not undertake any obligation to update or revise any forward-looking statement in this prospectus supplement or the accompanying prospectus except as required by applicable law or regulation.

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SUMMARY OF THE OFFERING

The following summary contains basic information about this offering and the terms of the notes. It does not contain all the information that is important to you. For a more complete understanding of this offering and the terms of the notes, we encourage you to read this entire prospectus supplement, including the information under the caption Description of Notes, and the accompanying prospectus, including the information under the caption Description of Debt Securities, and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

Issuer Kraft Foods Inc.

Securities Offered $ aggregate principal amount of notes, consisting of:

$ of % Notes due .

$ of % Notes due .

$ of % Notes due .

$ of % Notes due .

Maturity Date for the % Notes due .
for the % Notes due .

for the % Notes due .

for the % Notes due .

Interest Rate The % Notes due will bear interest from , 2010 at the rate of % per annum.
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Interest Payment Date Interest on the % Notes due is payable semi-annually on and of each year, beginning on , 2010.
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Interest on the % Notes due is payable quarterly on , , and of each year, beginning on , 2010.

Long-Term Senior Unsecured Debt Ratings* Moody s Investors Service, Inc.: Baa2 (negative outlook)
Standard & Poor s Rating Services: BBB- (issuer rating has positive outlook)

Fitch, Inc.: BBB- (stable outlook)

Ranking The notes will be our senior unsecured obligations and will:

- rank equally in right of payment with all of our existing and future senior unsecured indebtedness;
- rank senior in right of payment to all of our existing and future subordinated indebtedness;
- be effectively subordinated in right of payment to all of our existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness; and
- be effectively subordinated in right of payment to all existing and future indebtedness and other liabilities of each of our subsidiaries.

Covenants We will issue the notes under an indenture containing covenants that restrict our ability, with significant exceptions, to:

- incur debt secured by liens above a certain threshold;
- engage in certain sale and leaseback transactions above a certain threshold; and
- consolidate, merge, convey or transfer our assets substantially as an entirety.

For more information about these covenants, please see the information under the caption Description of Debt Securities Restrictive Covenants in the accompanying prospectus.

* Ratings are not recommendations to purchase, hold or sell the notes. The ratings do not comment as to market price or suitability for a particular investor. The ratings are based on current information furnished to the rating agencies by us and information obtained by the rating agencies from other sources. The ratings

are only accurate as of the date hereof and may be changed, superseded or withdrawn by the applicable rating agency as a result of changes in, or unavailability of, such information, and, therefore, a prospective purchaser should check the current ratings before purchasing the notes. Each rating should be evaluated independently of any other rating.

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Change of Control	Upon the occurrence of both (i) a change of control of Kraft Foods and (ii) a downgrade of the notes below an investment grade rating by each of Moody s Investors Service, Inc., Standard & Poor s Ratings Services and Fitch, Inc. within a specified period, Kraft Foods will be required to make an offer to purchase the notes at a price equal to 101% of the aggregate principal amount of such notes, plus accrued and unpaid interest to the date of repurchase. See Description of Notes Change of Control.
Redemption of Notes for Tax Reasons	We may redeem all, but not part, of a series of the notes upon the occurrence of specified tax events described under Description of Notes Redemption for Tax Reasons.
Use of Proceeds	We intend to use the net proceeds from the sale of the offered notes (estimated at $ before expenses but after deducting the underwriting discount) to finance the acquisition of Cadbury and, to the extent that any proceeds remain thereafter, for general corporate purposes. See Use of Proceeds.
Clearance and Settlement	The notes will be cleared through The Depository Trust Company, including its participants Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank S.A./N.V.
Trustee	Deutsche Bank Trust Company Americas
Governing Law	The indenture governing the notes is, and the notes will be, governed by, and construed in accordance with, the laws of the State of New York.

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ABOUT KRAFT FOODS

We are the world s second largest food company with revenues of $41.9 billion and earnings from continuing operations before income taxes of $2.6 billion in 2008. We have approximately 100,000 employees worldwide and we manufacture and market packaged food products, including snacks, beverages, cheese, convenient meals and various packaged grocery products. We generated approximately half of our revenues from outside the United States in 2008 and sell our products to consumers in approximately 150 countries. At December 31, 2008, we had operations in more than 70 countries and made our products at 168 manufacturing and processing facilities worldwide. At September 30, 2009, we had net assets of $25.2 billion and gross assets of $66.7 billion. We are a member of the Dow Jones Industrial Average, Standard & Poor s 500, the Dow Jones Sustainability Index and the Ethibel Sustainability Index.

Our portfolio includes nine brands with annual revenues exceeding $1.0 billion each, including *Kraft* cheeses, dinners and dressings; *Oscar Mayer* meats; *Philadelphia* cream cheese; *Maxwell House* and *Jacobs* coffee; *Nabisco* cookies and crackers; *Oreo* cookies; *Milka* chocolates; and *LU* biscuits. Our portfolio also includes approximately 50 brands which each generate annual revenues of more than $100 million, including *Planters* snack foods, *Jell-O* gelatin, *Velveeta* cheeses, *Miracle Whip* spreads, *Kool-Aid* beverages, *Lunchables* meals and *Toblerone* chocolates.

We are a Virginia corporation with principal executive offices at Three Lakes Drive, Northfield, IL 60093. Our telephone number is (847) 646-2000 and our Internet website is *www.kraftfoodscompany.com*. Except for the documents incorporated by reference in this prospectus supplement and the accompanying prospectus as described under the Incorporation by Reference heading in both the accompanying prospectus and this prospectus supplement, the information and other content contained on our website are not incorporated by reference in this prospectus supplement or the accompanying prospectus, and you should not consider them to be a part of this prospectus supplement or the accompanying prospectus.

ABOUT CADBURY

Cadbury is an international confectionery business that generated £5.4 billion in total revenue from its global operations in 2008. At December 31, 2008, Cadbury operated in over 60 countries and had over 45,000 employees. Cadbury s principal product segments are: chocolate, which contributed 46% of Cadbury s revenue in 2008; gum, which contributed 33% of Cadbury s revenue in 2008; and candy, which contributed 21% of Cadbury s revenue in 2008. At June 30, 2009, Cadbury had total assets of £7.9 billion and long-term borrowings of £1.4 billion.

Cadbury is registered under the laws of England and Wales as a public limited company with its registered office (principal executive office) at Cadbury House, Sanderson Road, Uxbridge, England, UB8 1DH.

RECENT DEVELOPMENTS

Offer to Acquire Cadbury

On December 4, 2009, we commenced an offer to acquire the outstanding Cadbury ordinary shares, including the ordinary shares represented by Cadbury American Depositary Shares (ADSs). On January 19, 2010, we announced the terms of our final offer for Cadbury, which we refer to as the offer, and the Cadbury board of directors recommended that Cadbury securityholders accept the terms of our offer. Under the basic terms of the offer, Cadbury securityholders who accept the offer are entitled to receive:

- 500 pence in cash and 0.1874 shares of Kraft Foods Class A common stock, of no par value, which we refer to as Kraft Foods common stock, in exchange for each outstanding Cadbury ordinary share validly tendered and not withdrawn.

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2,000 pence in cash and 0.7496 shares of Kraft Foods common stock, in exchange for each outstanding Cadbury ADS validly tendered and not withdrawn.

Based on the number of Cadbury ordinary shares issued and to be issued as of February 1, 2010 and assuming 100% participation in the offer, the aggregate consideration payable by Kraft Foods to Cadbury securityholders in the offer would consist of $11.25 billion and 265 million shares of Kraft Foods common stock.

The initial offer period expired on February 2, 2010. As of February 2, 2010, we had received acceptances for 71.73% of the Cadbury ordinary shares. On February 2, 2010, we announced that all of the conditions to the offer had been satisfied or waived. At the expiration of the initial offer period, a subsequent offer period immediately began. The offer remains open until further notice and we will give at least 14 days notice if we decide to close the offer.

See Description of Cadbury Acquisition for additional information on the offer to acquire Cadbury.

Agreement to Divest Frozen Pizza Business

On January 4, 2010, each of our subsidiaries, Kraft Foods Global, Inc., Kraft Foods Global Brands LLC, Kraft Pizza Company and Kraft Canada Inc., and Nestlé USA, Inc. (Nestlé), entered into an Asset Purchase Agreement. Pursuant to this agreement, we agreed to sell the assets of our frozen pizza and certain related frozen food products business to Nestlé for $3.7 billion in cash (of which we expect to receive total net cash proceeds of approximately $2.5 billion after tax and the payment of transaction costs, subject to a post-closing adjustment for inventory of the business at closing). The transaction is subject to regulatory approval and is expected to be completed by mid-2010.

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RISK FACTORS

Investing in the notes involves various risks, including the risks described below and in the documents we incorporate by reference herein. You should carefully consider these risks and the other information contained in this prospectus before deciding to invest in the notes. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business operations, financial condition and liquidity.

Risk Factors Relating to Our Business and the Business of the Combined Company

We operate in a highly competitive industry, which may affect our profitability.

The food industry is highly competitive. We compete based on price, product innovation, product quality, brand recognition and loyalty, effectiveness of marketing, promotional activity and the ability to identify and satisfy consumer preferences.

From time to time, we may need to reduce our prices in response to competitive and customer pressures and to maintain our market share. Competition and customer pressures may also restrict our ability to increase prices in response to commodity and other input cost increases. Our results of operations will suffer if profit margins decrease, as a result of a reduction in prices, increased input costs or other factors, and if we are unable to increase sales volumes to offset those profit margin decreases.

Retailers are increasingly offering retailer brands that compete with some of our products. It is important that our products provide higher value and/or quality to our consumers than less expensive alternatives. If the difference in value or quality between our products and those of retailer brands narrows, or if such difference in quality is perceived to have narrowed, then consumers may not buy our products. Furthermore, during periods of economic uncertainty, such as have been experienced in the recent past and may be experienced in the future, consumers tend to purchase more retailer brands or other economy brands, which could reduce sales volumes of our products or shift our product mix to our lower margin offerings. If we are not able to maintain or improve our brand image or value proposition, it could have a material effect on our market share and our profitability.

We may also need to increase spending on marketing, advertising and new product innovation to protect existing market share or increase market share. The success of our investments is subject to risks, including uncertainties about trade and consumer acceptance. As a result, our increased expenditures may not maintain or enhance market share and could result in lower profitability.

The consolidation of retail customers, the loss of a significant customer or a material reduction in sales to a significant customer could affect our operating margins, our profitability, our sales and our results of operations.

Retail customers, such as supermarkets, warehouse clubs and food distributors in the United States, the European Union and our other major markets, continue to consolidate. These consolidations have produced large, sophisticated customers with increased buying power. These larger retailers, capable of operating with reduced inventories, can resist price increases and demand lower pricing, increased promotional programs and specifically tailored products. They also may use shelf space currently used for our products for their own retailer brands. The consolidation of retail customers also increases the risk that a severe adverse impact on their business operations could have a corresponding material adverse effect on us. Also, our retail customers may be affected by recent economic conditions. For example, they may not have access to funds or financing and that could cause them to delay, decrease or cancel purchases of our products, or to not pay us or to delay paying us for previous purchases.

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During 2008, our five largest customers accounted for approximately 27% of our net revenues, with our largest customer, Wal-Mart Stores, Inc., accounting for approximately 16% of our net revenues. There can be no assurance that all significant customers will continue to purchase our products in the same quantities that they have in the past. The loss of any one of our significant customers or a material reduction in sales to a significant customer could have a material adverse effect on our sales and results of operations.

Increased price volatility for commodities we purchase may affect our profitability.

We are a major purchaser of commodities, including dairy, coffee, cocoa, wheat, corn products, soybean and vegetable oils, nuts, meat products, and sugar and other sweeteners. We also use significant quantities of plastic, glass and cardboard to package our products, and natural gas for our factories and warehouses. Price volatility for commodities we purchase has increased due to conditions outside of our control, including recent economic conditions, currency fluctuations, availability of supply, weather, consumer demand and changes in governmental agricultural programs. Although we monitor our exposure to commodity prices as an integral part of our overall risk management program, continued volatility in the prices of commodities we purchase could increase the costs of our products and services, and our profitability could suffer.

Our product sales depend on our ability to predict, identify and interpret changes in consumer preferences and demand, and our ability to develop and offer new products rapidly enough to meet those changes.

Consumer preferences for food products change continually. Our success depends on our ability to predict, identify and interpret the tastes and dietary habits of consumers and to offer products that appeal to those preferences.

If we do not succeed in offering products that appeal to consumers, our sales and market share will decrease, and our profitability could suffer. We must be able to distinguish among short-term fads, mid-term trends and long-term changes in consumer preferences. If we are unable to accurately predict which shifts in consumer preferences will be long-term or if we fail to introduce new and improved products to satisfy those preferences, our sales could decline. In addition, because of our varied consumer base, we must offer a sufficient array of products to satisfy the broad spectrum of consumer preferences. If we fail to expand our product offerings successfully across product categories or if we do not rapidly develop products in faster growing and more profitable categories, demand for our products will decrease and our profitability could suffer.

Prolonged negative perceptions concerning the health implications of certain food products could influence consumer preferences and acceptance of some of our products and marketing programs. For example, recently, consumers have been increasingly focused on health and wellness, including weight management and sodium consumption. Although we strive to respond to consumer preferences and social expectations, we may not be successful in these efforts. Continued negative perceptions and failure to satisfy consumer preferences could decrease demand for our products and adversely affect our profitability.

Legal claims or other regulatory enforcement actions could affect our sales, reputation and profitability.

As a large food company that operates in a highly regulated, highly competitive environment with growing retailer power and a constantly evolving legal and regulatory framework around the world, we are subject to heightened risk of legal claims or other

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regulatory enforcement actions. Legal claims or regulatory enforcement actions arising out of our failure or alleged failure to comply with applicable laws and regulations could adversely affect our sales, reputation and profitability.

Further, selling products for human consumption involves inherent risks. We could be required to recall products due to product contamination, spoilage or other adulteration, product misbranding or product tampering. We may also suffer losses if our products or operations violate applicable laws or regulations, or if our products cause injury, illness or death. In addition, our marketing could be the target of claims of false or deceptive advertising or other criticism. A significant product liability or other legal judgment or a related regulatory enforcement action against us, or a widespread product recall, may adversely affect our profitability. Moreover, even if a product liability or consumer fraud claim is unsuccessful, has no merit or is not pursued, the negative publicity surrounding assertions against our products or processes could adversely affect our sales, reputation and profitability.

Increased regulation could increase our costs and affect our profitability.

Food production and marketing are highly regulated by a variety of federal, state, local and foreign agencies. New regulations and changes to existing regulations are issued regularly. Increased governmental regulation of the food industry, such as proposed requirements designed to enhance food safety or to regulate imported ingredients, could increase our costs and adversely affect our profitability.

As a multinational corporation, our operations are subject to additional risks.

We generated approximately half of our 2008 sales, 43% of our 2007 sales and 40% of our 2006 sales outside the United States. The percentage of the combined company s sales generated outside of the United States will increase in 2010 due to the acquisition of Cadbury and the anticipated sale of our frozen pizza business. With operations in over 70 countries, our operations are subject to risks inherent in multinational operations, including:

- fluctuations in currency values;
- unpredictability of foreign currency exchange controls;
- discriminatory fiscal policies;
- compliance with a variety of local regulations and laws;
- changes in tax laws and the interpretation of such laws;
- difficulties enforcing intellectual property and contractual rights in certain jurisdictions; and
- greater risk of uncollectible accounts and longer collection cycles.

In addition, certain jurisdictions could impose tariffs, quotas, trade barriers and other similar restrictions on our sales. Moreover, our business operations could be interrupted and negatively affected by economic changes, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, and other economic or political uncertainties. All of these risks could result in increased costs or decreased revenues, either of which could adversely affect our profitability.

If we are unable to expand our operations in certain emerging markets, our growth rate could be negatively affected.

In 2007, we unveiled our strategies to grow our operations with increased focus on emerging markets, especially Brazil, Russia, China and other regions of Southeast Asia. Cadbury is also in the process of expanding its emerging markets business. The success of our operations depends in part on our ability to grow our business in these and other emerging markets. In some cases, emerging markets have greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions. In addition, emerging markets are becoming more competitive as other companies grow globally and local, low cost manufacturers expand their production capacities. If we are unable to increase our business in emerging markets, our market share and profitability could be adversely affected.

We may not be able to consummate proposed acquisitions or divestitures successfully or integrate Cadbury or other acquired businesses successfully.

The acquisition of Cadbury represents the largest acquisition we have made to date. From time to time, we may evaluate additional acquisition candidates in the future that would strategically fit our business objectives. If we are unable to complete acquisitions or integrate successfully and develop these businesses to realize revenue growth and cost savings, our financial results could be adversely affected. In addition, from time to time, we divest businesses that do not meet our strategic objectives, or do not meet our growth or profitability targets. Our profitability may be affected by either gains or losses on the sales of, or lost operating income from, those businesses. Also, we may not be able to complete desired or proposed divestitures on terms favorable to us. Moreover, we may incur asset impairment charges related to acquisitions or divestitures, which may reduce our profitability. Finally, our acquisition or divestiture activities may present financial, managerial and operational risks, including diversion of management attention from existing core businesses, difficulties integrating or separating personnel and financial and other systems, adverse effects on existing business relationships with suppliers and customers, inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets which would reduce future reported earnings, potential loss of customers or key employees of acquired businesses, and indemnities and potential disputes with the buyers or sellers. Any of these activities could affect our product sales, financial condition and results of operations.

For information on the risks that relate to the Cadbury acquisition, please see the section of this prospectus supplement entitled Risk Factors Relating to the Cadbury Acquisition.

Business process improvement initiatives to harmonize our systems and processes may fail to operate as designed and intended.

We regularly implement business process improvement initiatives to harmonize our systems and processes and to optimize our performance. Our current business process initiatives include, but are not limited to, our reorganization of our European operations, the delivery of a SAP enterprise resource planning application, and the outsourcing of certain administrative functions. If our business process improvement initiatives fail, our ability to improve existing operations, achieve anticipated cost savings and support future growth could be delayed.

Cadbury s Vision into Action initiative to deliver improvements in business performance may fail and the implementation of the plan may disrupt the combined company s business.

On June 19, 2007, Cadbury announced a new strategy for its confectionery business called Vision into Action, which includes a plan to improve its margin performance to achieve a mid-teens operating margin by 2011. According to publicly available information published by Cadbury, this plan includes reductions in the number of factories and employees, material changes to Cadbury s supply chain configuration and to the structure and operation of Cadbury s business.

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To the extent that we continue to implement the Vision into Action plan following completion of the offer, these reductions and changes increase the risk of disruption to the combined company s business, which may occur, for example, through a failure to successfully implement the Vision into Action plan, unforeseen events or workforce actions.

Cadbury has publicly indicated that it expects to incur a restructuring charge of £550 million (of which around £50 million is non-cash) and invest £200 million of capital expenditure behind the Vision into Action plan. If we continue to implement this plan following completion of the offer, there can be no guarantee that this plan, or any of Cadbury s other plans or investments, will deliver the anticipated improvements in business performance, which could adversely affect the business of the combined company. In addition, the implementation of the plan may not give rise to a sustained improvement in Cadbury s revenues or profitability or reach the level of projected improvement.

Changes in our credit ratings and the effects of volatile economic conditions on the credit market could adversely affect our borrowing costs and liquidity.

Our credit ratings depend generally on the amount of our debt and our ability to service our debt. A downgrade in our credit ratings, including as a result of incurring additional debt, would, and disruptions in the commercial paper market or the effects of other volatile economic conditions on the credit market could, reduce the amount of commercial paper that we could issue, and could raise our borrowing costs for both short-term and long-term debt offerings.

Volatility in the equity markets or interest rates could substantially increase our pension costs and have a negative impact on our operating results and profitability.

At the end of 2008, the projected benefit obligation of our defined benefit pension plans was $9.3 billion and assets were $7.0 billion. The difference between plan obligations and assets, or the funded status of the plans, significantly affects the net periodic benefit costs of our pension plans and the ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, investment returns and the market value of plan assets can (a) affect the level of plan funding, (b) cause volatility in the net periodic pension cost and (c) increase our future funding requirements. In addition, if we divest certain businesses, we may be required to increase future contributions to the benefit plans and the related net periodic pension cost could increase.

We expect to report having made approximately $620 million in contributions to our pension plans in 2009, which is approximately $400 million more than we made in 2008. In addition, we expect to report that in 2009 our net pension cost increased by approximately $150 million to approximately $390 million in 2009. Volatile economic conditions increase the risk that for periods beyond 2009 we may be required to make additional cash contributions to the pension plans and recognize further increases in our net pension cost.

Cadbury operates occupational defined benefit pension schemes and the combined company may be required to fund an increase in the cost of future benefits and/or meet funding shortfalls in respect of these schemes.

Cadbury has various pension schemes throughout the world and these cover a significant proportion of its current employees. The principal schemes are of the funded defined benefit type, with benefits accruing based on salary and length of service. The net retirement benefit obligation, recognized in the balance sheet at June 30, 2009, was £482 million versus £258 million at December 31, 2008. The actuarial loss on post retirement benefit obligations for the six months ended June 30, 2009 was £254 million (£190 million net of tax) and £388 million

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(£291 million net of tax) for the 12 months ended December 31, 2008. Regular assessments are carried out by independent actuaries and the long-term contribution rates decided on the basis of their guidance after discussions with trustees and the plan sponsor. According to Cadbury s consolidated financial statements for the year ended December 31, 2008, which are included in Kraft Foods Current Report on Form 8-K, filed with the SEC on February 3, 2009, and incorporated by reference into this prospectus supplement, Cadbury expected to contribute approximately £56 million to its defined benefit schemes in 2009, with additional scheduled recovery contributions of approximately £4 million in 2009 to further fund its defined benefit obligation in the United Kingdom. For more information on the funding status of these plans, please refer to Cadbury s unaudited financial statements for the six months ended June 30, 2009 and Cadbury s audited consolidated financial statements for the year ended December 31, 2008, which are included in Kraft Foods Current Report on Form 8-K, filed with the SEC on February 3, 2010, and incorporated by reference into this prospectus supplement.

Increases in the value of the liabilities of the defined benefit pension schemes and/or a reduction in the value of the assets supporting funded schemes can lead to a need to record increased deficits in the balance sheet. An increase in the value of the net liabilities of such schemes may negatively affect the combined company s balance sheet and distributable reserves, which could have a material adverse effect on the combined company s business, operating or financial results or financial position. Further demands for materially increased contributions from Cadbury employers to meet past service deficits or future service costs would impact the cash flows of the combined company.

In relation to Cadbury s U.K. pension arrangements, the Cadbury Pension Fund is a funded defined benefit pension scheme, which, according to Cadbury s consolidated financial statements for the year ended December 31, 2008, which are included in Kraft Foods Current Report on Form 8-K, filed with the SEC on February 3, 2010, and incorporated by reference into this prospectus supplement, represents about 65% of Cadbury and its subsidiaries post retirement liabilities. Its assets are held by trustees separate from the assets of Cadbury. U.K. pension law requires employers to pay periodic contributions and lump sums to these types of pension schemes.

While the Cadbury Pension Fund is ongoing (as opposed to if the Cadbury Pension Fund is wound up, which is described below) contributions are paid by employers over time to meet the cost of future service benefits and any past service deficits. The trust deed and rules of the Cadbury Pension Fund provide that each employer s liability to pay contributions is as decided by the trustees on advice of the actuary. However, statutory rules require such liability to be agreed between employers and trustees. U.K. law requires a degree of prudence in the calculation process used to set the level of contributions and depending on the situation, at the next valuation date, there could be a material increase in the cash demands placed on Cadbury and its subsidiaries who are employers for the purposes of the Cadbury Pension Fund, which may have a material adverse effect on the combined company s business, operating or financial results or financial position.

If the Cadbury Pension Fund were to wind up, Cadbury and its subsidiaries who are employers for the purposes of the Cadbury Pension Fund would be required to pay an amount equal to the shortfall or deficit at that time between the Cadbury Pension Fund s assets and its liabilities assessed on the so called buy out basis. This is the cost of purchasing annuities to cover all the Cadbury Pension Fund benefits with a buy out provider. We estimate that such an amount may be significant and could be in excess of £1.0 billion. Buy out deficits are volatile and depend on, among other things, market conditions and the appetite of buy out providers from time to time. In the event the Cadbury Pension Fund were to wind up or otherwise require employer contributions equal to buy-out funding, the amount of the deficit may be greater or less than this amount and the requirement to meet this deficit in very short order may have a

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material adverse effect on the combined company s business, operating or financial results or financial position.

Cadbury s pension liabilities are calculated using the accounting valuation basis for the purposes of determining the provision to be included in the balance sheet in its financial statements. According to Cadbury s audited consolidated financial statements for the year ended December 31, 2008, which are included in Kraft Foods Current Report on Form 8-K, filed with the SEC on February 3, 2010, the Cadbury Pension Fund was broadly in balance on an accounting basis at December 31, 2008. The level of the deficit calculated using the accounting valuation basis is volatile and depends on, among other things, market conditions from time to time. We estimate that, as at August 31, 2009, the accounting deficit would have been approximately £400 million. Following completion of the offer, depending on the circumstances at the time the next balance sheet is prepared for the combined company, Cadbury s pension liabilities may have a material adverse effect on the combined company s business, operating or financial results or financial position.

Upon completion of the offer, the U.K. Pensions Regulator will have power in certain circumstances to require us and our subsidiaries (including those subsidiaries outside the U.K.) to make substantial payments into or otherwise provide financial support to the Cadbury Pension Fund, for amounts up to the buy out deficit from time to time. Thus, upon completion of the offer, liability to support the Cadbury Pension Fund will not necessarily be limited to Cadbury and its subsidiaries.

Risk Factors Relating to the Cadbury Acquisition

Failure to acquire 100% of the Cadbury ordinary shares, including Cadbury ADSs, may affect our ability to complete any post-closing restructuring of Cadbury and its subsidiaries. This could reduce or delay the cost savings or revenue benefits to the combined company.

To effect a compulsory acquisition of the remaining Cadbury ordinary shares, including those represented by Cadbury ADSs, we will need to first obtain at least 90% of the Cadbury ordinary shares to which the offer relates, including those represented by Cadbury ADSs. Unlike domestic U.S. corporations, English corporations cannot merge with another corporation with the approval of a majority shareholder vote. The initial offer period expired on February 2, 2010. As of such date, we had received acceptances for 71.73% of the Cadbury ordinary shares. On February 2, 2010, we announced that all of the conditions to the offer had been satisfied or waived. At the expiration of the initial offer period, a subsequent offer period immediately began. The offer remains open until further notice and we will give at least 14 days notice if we decide to close the offer. We cannot be certain that we will obtain at least 90% of the Cadbury ordinary shares during the subsequent offer period. Therefore, we may not be able to compulsorily acquire the remaining Cadbury ordinary shares, including those represented by Cadbury ADSs. Furthermore, if we do not receive acceptances representing 75% of Cadbury s outstanding share capital we may not control sufficient voting rights to delist Cadbury unilaterally from the Official List and from trading on the London Stock Exchange; it may take longer and be more difficult to effect any post-closing restructuring; and the full amount of the cost synergies and revenue benefits identified for the combined company may not be obtained or may only be obtained over a longer period of time. In addition, if we end up owning less than 100% of Cadbury, we may not be able to carry out joint cash pooling or other intra-company transactions with Cadbury and its subsidiaries on favorable terms, or at all. This may adversely affect our ability to achieve the expected amount of cost synergies and revenue benefits.

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We have made certain assumptions relating to the Cadbury acquisition in our forecasts that may prove to be materially inaccurate.

We have made certain assumptions relating to the forecast level of cost savings, synergies and associated costs of the Cadbury acquisition. Our assumptions relating to the forecast level of cost savings, synergies and associated costs of the Cadbury acquisition may be inaccurate, including as the result of the failure to realize the expected benefits of the acquisition, higher than expected transaction and integration costs and unknown liabilities as well as general economic and business conditions that adversely affect the combined company following the completion of the acquisition.

The Cadbury acquisition could cause disruptions in the businesses of Kraft Foods and/or Cadbury, which could have material adverse effects on their businesses and financial results, as well as on the business prospects and financial results of the combined company.

The Cadbury acquisition could cause disruptions in the businesses of Kraft Foods and/or Cadbury. Specifically, some current and prospective employees may experience uncertainty about their future roles within the combined company, which may adversely affect Kraft Foods and Cadbury s abilities to retain or recruit key managers and other employees. If Kraft Foods and Cadbury fail to manage these risks effectively, the business and financial results of Kraft Foods, Cadbury and the combined company could be adversely affected.

If there are significant, unforeseen difficulties integrating the business operations of Kraft Foods and Cadbury, they could adversely affect the business of the combined company.

We intend, to the extent possible, to integrate our operations with those of Cadbury. Our goal in integrating these operations is to increase revenues through enhanced growth opportunities and achieve cost savings by taking advantage of the significant anticipated synergies of consolidation. However, we may encounter difficulties integrating our operations with Cadbury s operations, resulting in a delay or the failure to achieve the anticipated synergies, including the expected increases in earnings and cost savings. If such difficulties are significant, this could adversely affect the business of the combined company.

We may incur higher than expected integration, transaction and acquisition-related costs.

We expect to incur a number of non-recurring costs associated with combining the operations of the two companies, including implementation cash costs estimated to be approximately $1.3 billion in the first three years following completion of the Cadbury acquisition. In addition, we will incur legal, accounting and transaction fees and other costs related to the offer. Some of these costs are payable regardless of whether the offer is completed and such costs may be higher than anticipated.

Although we believe that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, will offset these implementation and acquisition costs over time, this net benefit may not be achieved within the expected timetable. In addition, some of these costs could be higher than we anticipate, which could reduce the net benefits of the transaction and impact our results of operations.

Please see the section of this prospectus supplement entitled Failure to acquire 100% of the Cadbury ordinary shares, including Cadbury ADSs, may affect our ability to complete any post-closing restructuring of Cadbury and its subsidiaries. This could reduce or delay the cost savings or revenue benefits to the combined company.

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Shareholders in the combined company will be more exposed to currency exchange rate fluctuations as, following completion of the Cadbury acquisition, there will be an increased proportion of assets, liabilities and earnings denominated in foreign currencies.

As a result of the completion of the Cadbury acquisition, the financial results of the combined company will be more exposed to currency exchange rate fluctuations and an increased proportion of assets, liabilities and earnings will be denominated in non-U.S. dollar currencies.

The combined company will present its financial statements in U.S. dollars and will have a significant proportion of net assets and income in non-U.S. dollar currencies, primarily pounds sterling and the euro, as well as a range of emerging market currencies. The combined company s financial results and capital ratios will therefore be sensitive to movements in foreign exchange rates. A depreciation of non-U.S. dollar currencies relative to the U.S. dollar could have an adverse impact on the combined company s financial results.

Risks Relating to Cadbury s Business

Additionally, we encourage you to read and consider the other risk factors specific to Cadbury s businesses (that may also affect the combined company after consummation of the Cadbury acquisition), which are included in Kraft Foods Current Report on Form 8-K, filed with the SEC on February 3, 2010, and incorporated by reference into this prospectus supplement. Please see Incorporation by Reference in this prospectus supplement.

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DESCRIPTION OF CADBURY ACQUISITION

On December 4, 2009, we made an offer to acquire the outstanding Cadbury ordinary shares, including the ordinary shares represented by Cadbury ADSs. On January 19, 2010, we announced the terms of our final offer for Cadbury and the Cadbury board of directors recommended that Cadbury securityholders accept the terms of our offer. Under the basic terms of the offer, Cadbury securityholders who accept the offer are entitled to receive:

- 500 pence in cash and 0.1874 shares of Kraft Foods common stock, in exchange for each outstanding Cadbury ordinary share validly tendered and not withdrawn; and

- 2,000 pence in cash and 0.7496 shares of Kraft foods common stock, in exchange for each outstanding Cadbury ADS validly tendered and not withdrawn.

There is also a mix and match facility available to Cadbury securityholders. Under this facility, Cadbury securityholders may elect to vary the proportions in which they receive Kraft Foods common stock and cash consideration, subject to off-setting elections being made by other Cadbury securityholders. To the extent that elections cannot be satisfied in full, they will be reduced on a *pro rata* basis. When announced on January 19, 2010, the offer valued each Cadbury share at 840 pence (based on the closing price of $29.58 per share of Kraft Foods common stock on January 15, 2010 and an exchange rate of $1.63 to £1.00 as at January 18, 2010) and valued the entire issued share capital of Cadbury at £11.9 billion (approximately $19.4 billion). Based on the number of Cadbury ordinary shares issued and to be issued as of February 1, 2010 and assuming 100% participation in the offer, the aggregate consideration payable by Kraft Foods to Cadbury securityholders in the offer would consist of $11.25 billion and 265 million shares of Kraft Foods common stock.