

KRAFT FOODS INC  
Form 424B2  
February 03, 2010  
Table of Contents

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.**

Edgar Filing: KRAFT FOODS INC - Form 424B2

	<b>Per</b>	<b>Note</b>	<b>Total</b>	<b>Per</b>	<b>Note</b>	<b>Total</b>	<b>Per</b>	<b>Note</b>	<b>Total</b>	<b>Per</b>	<b>Note</b>	<b>Total</b>
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**

**Citi**

**HSBC**

Prospectus Supplement dated \_\_\_\_\_

**BBVA Securities**

**Credit Suisse**

**RBS**

, 2010.

**BNP PARIBAS**

**Deutsche Bank Securities**

**SOCIETE GENERALE**

**Table of Contents****TABLE OF CONTENTS****Prospectus Supplement**

<u>About This Prospectus Supplement</u>	iii
<u>Presentation of Financial Information</u>	iii
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	iii
<u>Summary of the Offering</u>	1
<u>About Kraft Foods</u>	4
<u>About Cadbury</u>	4
<u>Recent Developments</u>	4
<u>Risk Factors</u>	6
<u>Description of Cadbury Acquisition</u>	15
<u>Ratio of Earnings to Fixed Charges</u>	16
<u>Use of Proceeds</u>	17
<u>Capitalization</u>	18
<u>Selected Historical Consolidated Financial Data of Kraft Foods</u>	20
<u>Unaudited Pro Forma Financial Information</u>	21
<u>Summary of Significant Differences Between IFRS and U.S. GAAP</u>	35
<u>Description of Notes</u>	39
<u>Certain U.S. Federal Income Tax Considerations</u>	51
<u>Underwriting</u>	56
<u>Incorporation by Reference</u>	60
<u>Experts</u>	61
<u>Validity of the Notes</u>	61

**Prospectus**

<u>About this Prospectus</u>	1
<u>About the Company</u>	1
<u>Risk Factors</u>	2
<u>Where You Can Find More Information</u>	2
<u>Incorporation by Reference</u>	2
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	3
<u>Use of Proceeds</u>	3
<u>Ratio of Earnings to Fixed Charges</u>	4
<u>Description of Debt Securities</u>	4
<u>Plan of Distribution</u>	16
<u>Experts</u>	16
<u>Legal Matters</u>	16

**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.**

**Table of Contents**

**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.**

## **Table of Contents**

### **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 refer to 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

**Table of Contents**

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.

**Table of Contents**

**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.

<b>Issuer</b>	Kraft Foods Inc.
<b>Securities Offered</b>	\$ aggregate principal amount of notes, consisting of:
	\$ of % Notes due .
	\$ of % Notes due .
	\$ of % Notes due .
	\$ of % Notes due .
<b>Maturity Date</b>	for the % Notes due .
	for the % Notes due .
	for the % Notes due .
<b>Interest Rate</b>	The % Notes due will bear interest from , 2010 at the rate of % per annum.
The % Notes due	will bear interest from , 2010 at the rate of % per annum.
The % Notes due	will bear interest from , 2010 at the rate of % per annum.
The % Notes due	will bear interest from , 2010 at the rate of % per annum.
<b>Interest Payment Date</b>	Interest on the % Notes due is payable semi-annually on and of each year, beginning on , 2010.
Interest on the % Notes due is payable semi-annually on	and of each year, beginning on , 2010.

Edgar Filing: KRAFT FOODS INC - Form 424B2

Interest on the % Notes due is payable semi-annually on and of each year, beginning on 2010.

S-1



**Table of Contents**

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

## Edgar Filing: KRAFT FOODS INC - Form 424B2

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.

S-2

**Table of Contents**

**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.

---

**Table of Contents**

**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.kraftfoodscopy.com](http://www.kraftfoodscopy.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.

**Table of Contents**

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.

**Table of Contents**

**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.

## **Table of Contents**

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

## **Table of Contents**

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.**



## Edgar Filing: KRAFT FOODS INC - Form 424B2

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

S-8

## **Table of Contents**

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.

## **Table of Contents**

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

---

**Table of Contents**

(£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

## Table of Contents

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.

## **Table of Contents**

### **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," which 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.

**Table of Contents**

**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.

**Table of Contents**

**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.

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. 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.

If we acquire 90% or more of the Cadbury ordinary shares, including those represented by ADSs, to which the offer relates, we intend to acquire the remaining Cadbury ordinary shares, including those represented by Cadbury ADSs, that we do not own through a compulsory acquisition procedure under the United Kingdom Companies Act of 2006, as amended. If we do not achieve this threshold, the compulsory acquisition procedure cannot be implemented. See Risk Factors 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.



**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our historical ratios of earnings to fixed charges for the periods indicated. This information should be read in conjunction with the consolidated financial statements and the accompanying notes incorporated by reference in this prospectus supplement.

	Nine Months Ended		Years Ended December 31,			
	September 30, 2009	2008	2007	2006	2005	2004
Ratios of earnings to fixed charges	4.1x	2.8x	5.2x	6.1x	5.8x	5.5x

Earnings available for fixed charges represent earnings before income taxes, minority interest and cumulative effect of accounting change and fixed charges excluding capitalized interest, net of amortization, reduced by undistributed earnings of our less than 50% owned affiliates. Fixed charges represent interest expense, amortization of debt discount and expenses, capitalized interest, plus that portion of rental expense deemed to be the equivalent of interest. Interest expense excludes interest related to uncertain tax positions which has been included in the provision for income taxes.

**Table of Contents**

**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 our acquisition of Cadbury and, to the extent that any proceeds remain thereafter, for general corporate purposes. We intend to use alternative funding sources, including our bridge loan facility and other short-term borrowing arrangements, to the extent that the net proceeds from the sale of the offered notes are not sufficient to finance the acquisition of Cadbury. See Description of Cadbury Acquisition.

S-17

**Table of Contents**

**CAPITALIZATION**

The following table sets forth our capitalization on a consolidated basis as of June 30, 2009. We have presented our capitalization:

on an actual basis;

on a pro forma as adjusted basis to reflect the completion of our acquisition of Cadbury, as if the closing of that acquisition had occurred on June 30, 2009:

the issuance of notes offered hereby; and

the use of net proceeds (before expenses but after deducting the underwriting discount) from the issuance of notes offered hereby as described under the caption "Use of Proceeds."

You should read the following table along with our financial statements and the accompanying notes to those statements, together with management's discussion and analysis of financial condition and results of operations, contained in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, our selected historical financial data included in this prospectus supplement under the caption "Selected Historical Consolidated Financial Data of Kraft Foods" and the unaudited pro forma financial data included in this prospectus supplement under the caption "Unaudited Pro Forma Combined Financial Data."

**Table of Contents**

	As of June 30, 2009	
	Actual	Pro Forma As Adjusted
	(unaudited) (in millions)	
Short-term borrowings, including current maturities	\$ 1,615	\$
% Notes due		
% Notes due		
% Notes due		
% Notes due		
Bridge loan facility		
Other long term debt	18,610	
Total debt	20,225	
Kraft Foods shareholders' equity:		
Common Stock		
Additional paid-in capital	23,517	
Retained earnings	14,016	
Accumulated other comprehensive losses	(4,723)	
Treasury stock, at cost	(8,514)	
Total Kraft Foods shareholders' equity	24,296	
Total capitalization	\$ 44,521	\$

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF KRAFT FOODS**

The following table sets forth the selected historical consolidated financial data of Kraft Foods for the nine-month periods ended September 30, 2009 and 2008 and for each of the years in the five-year period ended December 31, 2008. The following data have been derived from the annual audited consolidated financial statements, including the consolidated balance sheets at December 31, 2008 and 2007 and the related consolidated statements on income and of cash flows for each of the three years in the period ended December 31, 2008 and notes thereto; and the unaudited Selected Financial Data Summary contained in Kraft Foods' Current Report on Form 8-K filed with the SEC on November 3, 2009. The data for the nine months ended September 30, 2009 and 2008 have been derived from unaudited consolidated financial statements of Kraft Foods contained in the Kraft Foods' Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, and which, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the unaudited interim periods. Historical results are not indicative of the results to be expected in the future and results of interim periods are not necessarily indicative of results for the entire year.

This summary information is derived from and should be read in conjunction with the financial statements and related notes incorporated by reference into this prospectus supplement and the accompanying prospectus, as described in the section of this prospectus supplement entitled Incorporation by Reference.

	Nine months ended September 30, 2009		2008	Year ended December 31,			
	2009 (unaudited)	2008		2008	2007	2006	2005
(in millions of U.S. dollars, except per share and employee data)							
<b>Summary of Operations:</b>							
Net revenues	\$ 29,361	\$ 31,251	\$ 41,932	\$ 35,858	\$ 33,018	\$ 32,779	\$ 30,859
Cost of sales	18,890	20,777	28,088	23,656	21,190	21,115	19,474
Operating income	4,218	3,513	3,843	4,176	4,158	4,373	4,327
Operating margin	14.4%	11.2%	9.2%	11.6%	12.6%	13.3%	14.0%
Interest and other expense, net	915	934	1,240	604	510	635	666
Earnings from continuing operations before income taxes	3,303	2,579	2,603	3,572	3,648	3,738	3,661
Provision for income taxes	986	834	755	1,080	816	1,066	1,165
Earnings / (loss) from discontinued operations, net of income taxes		968	1,045	232	233	(33)	219
Net earnings	2,317	2,713	2,893	2,724	3,065	2,639	2,715
Noncontrolling interest	6	7	9	3	5	3	3
Net earnings attributable to Kraft Foods	2,311	2,706	2,884	2,721	3,060	2,636	2,712
Net cash provided by operating activities	3,269	2,529	4,141	3,571	3,720	3,464	4,008
Capital expenditures	749	901	1,367	1,241	1,169	1,171	1,006
Depreciation	644	734	963	873	884	869	868
Property, plant and equipment, net	10,409	10,638	9,917	10,778	9,693	9,817	9,985
Inventories, net	4,073	4,792	3,881	4,238	3,436	3,272	3,365
Total assets	66,669	67,029	63,173	68,132	55,548	57,597	59,905
Long-term debt	18,108	18,874	18,589	12,902	7,081	8,475	9,723
Total debt	20,725	20,593	20,251	21,009	10,821	11,200	12,518
Total long-term liabilities	29,402	30,176	29,773	23,574	16,520	19,285	20,903
Total Kraft Foods Shareholders' Equity	25,125		22,295	27,407	28,536	29,574	29,888
Total Equity	25,211	26,554	22,356	27,445	28,562	29,600	29,924

---

**Table of Contents**

**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following unaudited pro forma financial information for the year ended December 31, 2008, and for the six month period ended June 30, 2009, the date of the latest publicly available financial information of Cadbury, gives effect to (a) the divestiture of the Kraft Foods pizza business as announced on January 5, 2010 and (b) the acquisition of Cadbury by Kraft Foods, as if both transactions had occurred on January 1, 2008. The following unaudited pro forma balance sheet information at June 30, 2009, gives effect to the disposal of the pizza business and the acquisition of Cadbury by Kraft Foods as if it had occurred on June 30, 2009.

As a reporting company subject to the listing rules of the United Kingdom Listing Authority, Cadbury is only required to prepare audited annual and unaudited semi-annual financial statements. Therefore, financial information concerning Cadbury's business and financial condition was not available to us for the purpose of presenting pro forma combined financial data for the nine-month period ended September 30, 2009.

The unaudited pro forma financial information included in this prospectus supplement is based on the historical financial statements of Kraft Foods and Cadbury and on certain assumptions which Kraft Foods believes to be reasonable, which are described in the notes to the statements below. Kraft Foods has not performed any detailed valuation analysis necessary to determine the fair market values of the Cadbury assets to be acquired and liabilities to be assumed, and accordingly, except as described in note 4(a) below, the pro forma financial statements do not include an allocation of the purchase price to reflect the fair value of those assets and liabilities. Once this valuation analysis is completed, this pro forma financial information will be adjusted. These adjustments may be material.

The unaudited pro forma financial information:

does not purport to represent what the consolidated results of operations actually would have been if the acquisition of Cadbury had occurred on January 1, 2008 or what those results will be for any future periods or what the consolidated balance sheet would have been if the acquisition of Cadbury had occurred on June 30, 2009. The pro forma adjustments are based on information current as at January 18, 2010 (being the latest practicable date prior to our announcement of the revised terms of the offer);

has not been modified to reflect the impacts of certain divestitures, which are insignificant to the combined company, and which are required to satisfy the European Commission's condition to its anti-trust related approval of the acquisition of Cadbury; and

has not been adjusted to reflect any matters not directly attributable to implementing the acquisition of Cadbury. No adjustment, therefore, has been made for actions which may be taken once the offer is complete, such as any of our integration plans related to Cadbury. As a result, the actual amounts recorded in the consolidated financial statements of Kraft Foods will differ from the amounts reflected in the unaudited pro forma financial statements, and the differences may be material.

The unaudited pro forma financial information has been compiled from the following sources:

U.S. GAAP financial information of Kraft Foods has been extracted without material adjustment from Kraft Foods' audited consolidated statements of earnings for the year ended December 31, 2008 contained in Kraft Foods' Current Report on Form 8-K filed with the SEC on November 3, 2009 and incorporated by reference into this prospectus supplement, and unaudited consolidated statements of earnings for the six months ended June 30, 2009 and the unaudited consolidated balance sheet as at June 30, 2009 contained in Kraft Foods' Quarterly Report on Form 10-Q, for the quarter ended June 30, 2009 and incorporated by reference into this prospectus supplement. Financial information from the

**Table of Contents**

reconciliations summarizing the material differences between U.S. GAAP and IFRS as issued by the IASB has not been adjusted to reflect any matters not directly attributable to implementing the acquisition of Cadbury. No adjustment, therefore, has been made for actions which may be taken once the offer is complete, such as any integration plans related to Cadbury.

IFRS financial information of Cadbury has been extracted without material adjustment, except for currency translation as noted below, from the Cadbury audited consolidated income statement 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, and from the Cadbury unaudited consolidated statement of income for the six months ended June 30, 2009, and unaudited consolidated balance sheet as at June 30, 2009, 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.

Unaudited adjustments have been made to deduct the operations and net assets of Kraft Foods' pizza business and to reflect the impact of proceeds received from the sale. The basis for these adjustments is explained in the notes accompanying the tables.

Unaudited adjustments have been made to align the Cadbury IFRS financial information with Kraft Foods' U.S. GAAP accounting policies. The basis for these adjustments is explained in the notes to the information accompanying the tables.

Kraft Foods translated its historical financial information based on the requirements of SFAS 52, using historical exchange rates. Kraft Foods translated the results of operations of its foreign subsidiaries into U.S. dollars using average exchange rates during each period indicated. Kraft Foods translated balance sheet accounts into U.S. dollars using exchange rates at the end of each period indicated. Cadbury translated its historical financial information based on the requirements of IFRS. Based on its review of Cadbury's historical financial statements and understanding of the differences between U.S. GAAP and IFRS, Kraft Foods is not aware of any further adjustment that it would need to make to Cadbury's historical financial statements relating to foreign currency translation. The pro forma adjustments in this table have been translated from pounds sterling to U.S. dollars using Kraft Foods' historic exchange rates. The average exchange rates applicable during the periods presented for the unaudited pro forma consolidated statements of earnings and the period end exchange rate for the unaudited pro forma consolidated balance sheet are:

		\$/£1
December 31, 2008	Average Spot Rate	1.8758
June 30, 2009	Average Spot Rate	1.4812
June 30, 2009	Period End Rate	1.6439

The following pro forma financial statements should be read in conjunction with:

the accompanying notes to the Unaudited U.S. GAAP Pro Forma Financial Information;

the consolidated financial statements of Kraft Foods for the year ended December 31, 2008 and for the six months ended June 30, 2009 and the notes relating thereto, incorporated herein by reference;

the consolidated financial statements of Cadbury for the year ended December 31, 2008 and for the six months ended June 30, 2009 and the notes relating thereto, incorporated herein by reference; and

The section of this prospectus supplement entitled "Summary of Significant Differences Between IFRS and U.S. GAAP."





**Table of Contents****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS****For the six months ended June 30, 2009****(in millions of U.S. dollars, except common share amounts and as indicated)**

	Kraft Foods	Cadbury IFRS (in £)	Cadbury IFRS (in \$)	Pro Forma Adjustments		Note	Pro Forma Kraft Foods
				Cadbury U.S. GAAP Adjustments	Transaction Adjustments		
Net revenues	\$ 19,558	£ 2,767	\$ 4,098	\$	\$ (798)	4(b)	\$ 22,858
Cost of sales	12,628			2,191	(480)	3(d), 3(j), 4(c)	14,339
Gross profit	6,930	2,767	4,098	(2,191)	(318)		8,519
Marketing, administration and research costs	4,131	2,461	3,645	(2,155)	(150)	3(c), 3(g), 3(j), 4(d)	5,471
Asset impairment and exit costs	(26)	105	156				130
Losses / (gains) on divestitures, net	17						17
Amortization of intangibles	9			24	9	3(b), 3(j), 5(b)	42
Operating income	2,799	201	297	(60)	(177)		2,859
Interest and other expense, net	592	89	132	(9)	210	3(d), 3(j), 5(c)	925
Earnings from continuing operations before income taxes	2,207	112	165	(51)	(387)		1,934
Provision for income taxes	716	33	49	(13)	(126)	3(i), 4(e), 5(e)	626
Earnings from continuing operations	1,491	79	116	(38)	(261)		\$ 1,308
Noncontrolling interest	4						4
Earnings from continuing operations attributable to shareholders	\$ 1,487	£ 79	\$ 116	\$ (38)	\$ (261)		\$ 1,304

See notes to pro forma financial statements.

**Table of Contents****UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS****For the year ended December 31, 2008****(in millions of U.S. dollars, except common share amounts and as indicated)**

	Pro Forma Adjustments					Note	Pro Forma Kraft Foods
	Kraft Foods	Cadbury IFRS (in £)	Cadbury IFRS (in \$)	Cadbury U.S. GAAP Adjustments	Transaction Adjustments		
Net revenues	\$ 41,932	£ 5,384	\$ 10,099	\$	\$ (1,440)	4(b)	\$ 50,591
Cost of sales	28,088			5,390	(924)	3(d), 3(j), 4(c)	32,554
Gross profit	13,844	5,384	10,099	(5,390)	(516)		18,037
Marketing, administration and research costs	8,862	4,802	9,008	(5,365)	(249)	3(c), 3(g), 3(j), 4(d)	12,256
Asset impairment and exit costs	1,024	194	364				1,388
Losses / (gains) on divestitures, net	92						92
Amortization of intangibles	23			60	18	3(b), 3(j), 5(b)	101
Operating income	3,843	388	727	(85)	(285)		4,200
Interest and other expense, net	1,240	(12)	(23)	45	421	3(d), 3(j), 5(c)	1,683
Earnings from continuing operations before income taxes	2,603	400	750	(130)	(706)		2,517
Provision for income taxes	755	30	56	(34)	(228)	3(i), 4(e), 5(e)	549
Earnings from continuing operations	1,848	370	694	(96)	(478)		1,968
Noncontrolling interest	9	2	4				13
Earnings from continuing operations attributable to shareholders	\$ 1,839	£ 368	\$ 690	\$ (96)	\$ (478)		\$ 1,955

See notes to pro forma financial statements.

**Table of Contents****UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET**

As at June 30, 2009

(in millions of U.S. dollars, except as indicated)

	Kraft Foods	Cadbury IFRS (in £)	Cadbury IFRS (in \$)	Pro Forma Adjustments		Note	Pro Forma Kraft Foods
				Cadbury U.S. GAAP Adjustments	Transaction Adjustments		
<b>ASSETS</b>							
Cash and cash equivalents	\$ 1,731	£ 266	\$ 437	\$	\$ (435)	5(a)i.	\$ 1,733
Short-term investments		98	161				161
Receivables	4,646	923	1,517	(395)		3(j)	5,768
Inventories, net	4,011	849	1,396		(85)	4(a)i.	5,322
Deferred income taxes	682			260		3(j)	942
Other current assets	618	166	273	395		3(j)	1,286
Total current assets	11,688	2,302	3,784	260	(520)		15,212
						3(d), 3(e),	
Property, plant and equipment, net	10,224	1,762	2,897	(64)	(263)	4(a)i.	12,794
Goodwill	28,225	2,081	3,421	2,701	8,676	4(a)i, 5(a)ii.	43,023
Intangible assets, net	13,257	1,457	2,395	(865)	3,470	3(b), 5(a)ii.	18,257
Other assets	1,260	297	488	(202)		3(i), 3(j)	1,546
<b>TOTAL ASSETS</b>	<b>\$ 64,654</b>	<b>£ 7,899</b>	<b>\$ 12,985</b>	<b>\$ 1,830</b>	<b>\$ 11,363</b>		<b>\$ 90,832</b>
<b>LIABILITIES</b>							
Short-term borrowings	\$ 856	£ 729	\$ 1,198	\$ (822)		3(j)	\$ 1,232
Current portion of long-term debt	759			822		3(j)	1,581
Accounts payable	3,225	1,345	2,211	(1,376)		3(j)	4,060
Accrued marketing	1,869						1,869
Accrued employment costs	847						847
Other current liabilities	2,747	435	715	1,379	299	3(f), 3(j), 5(d)	5,140
Total current liabilities	10,303	2,509	4,124	3	299		14,729
Long-term debt	18,610	1,396	2,295		8,333		29,238
Deferred income taxes	4,266	155	255	(385)	1,042	3(i), 5(a)ii.	5,178
Accrued pension costs	2,209	482	792				3,001
Accrued postretirement health care costs	2,682						2,682
Other liabilities	2,204	270	444	170		3(g), 3(h)	2,818
<b>TOTAL LIABILITIES</b>	<b>40,274</b>	<b>4,812</b>	<b>7,910</b>	<b>(212)</b>	<b>9,674</b>		<b>57,646</b>
<b>EQUITY</b>							
Common stock, no par value							
Additional paid-in capital	23,517	197	324		7,112	5(a)i., 5(g)	30,953
Retained earnings	14,016	2,470	4,060	2,042	(4,744)	4(a), 5(a)i., 5(g)	15,374
Accumulated other comprehensive losses	(4,723)	413	679		(679)	5(g)	(4,723)
Treasury stock, at cost	(8,514)						(8,514)
Total Shareholders' Equity	24,296	3,080	5,063	2,042	1,689		33,090
Noncontrolling interest	84	7	12				96
<b>TOTAL EQUITY</b>	<b>24,380</b>	<b>3,087</b>	<b>5,075</b>	<b>2,042</b>	<b>1,689</b>		<b>33,186</b>

Edgar Filing: KRAFT FOODS INC - Form 424B2

TOTAL LIABILITIES AND EQUITY	\$ 64,654	£ 7,899	\$ 12,985	\$ 1,830	\$ 11,363	\$ 90,832
------------------------------	-----------	---------	-----------	----------	-----------	-----------

See notes to pro forma financial statements.

S-25

**Table of Contents**

**NOTES**

**1. BASIS OF PRESENTATION**

The unaudited pro forma financial information has been compiled from underlying financial statements prepared in accordance with U.S. GAAP and IFRS and reflects the acquisition of Cadbury by Kraft Foods.

The unaudited pro forma financial information should be read in conjunction with the underlying financial information from which it was extracted without material adjustment: (a) the audited consolidated financial statements of Kraft Foods as at and for the year ended December 31, 2008, and as at and for the six months ended June 30, 2009, each prepared in accordance with U.S. GAAP; (b) the audited consolidated financial statements of Cadbury as at and for the year ended December 31, 2008 prepared in accordance with IFRS as issued by the IASB, and the unaudited interim financial information of Cadbury as at and for the six months ended June 30, 2009, each prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting ( IAS 34 ); and (c) the unaudited reconciliation of Cadbury s IFRS financial statements to U.S. GAAP.

The underlying financial information of Kraft Foods has been derived from the unaudited consolidated financial statements of Kraft Foods contained in Kraft Foods Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 and the audited consolidated financial statements of Kraft Foods contained in Kraft Foods Current Report on Form 8-K filed with the SEC on November 3, 2009. The underlying financial information for Cadbury has been derived from the unaudited consolidated financial statements of Cadbury and the audited consolidated financial statements of Cadbury, both of 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.

The combination with Cadbury has been treated as an acquisition, with Kraft Foods as the acquirer and Cadbury as the acquiree, assuming that the offer had been completed on January 1, 2008, for the unaudited pro forma consolidated statements of earnings and on June 30, 2009, for the unaudited pro forma consolidated balance sheet.

This unaudited pro forma financial information is not intended to reflect the financial position and results which would have actually resulted had the acquisition of Cadbury been effected on the dates indicated. Further, the pro forma results of operations are not necessarily indicative of the results of operations that may be obtained in the future. No account has been taken of the trading activity or other transactions of Kraft Foods or Cadbury for the period since June 30, 2009.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The unaudited pro forma financial information has been compiled in a manner consistent with the accounting policies adopted by Kraft Foods. These accounting policies differ in a number of significant respects from those of Cadbury. The adjustments made to align Cadbury s IFRS financial information with Kraft Foods U.S. GAAP accounting policies are described in note 3.

The Cadbury balances have been translated from pounds sterling to U.S. dollars using average exchange rates applicable during the periods presented for the unaudited pro forma consolidated statements of earnings and the period end exchange rate for the unaudited pro forma consolidated balance sheet.

---

**Table of Contents**

**3. PRO FORMA U.S. GAAP ADJUSTMENTS**

The following adjustments have been made to align the Cadbury IFRS financial information with Kraft Foods U.S. GAAP accounting policies.

**(a) Goodwill**

Upon adoption of IFRS, entities were permitted to retain their historical GAAP accounting treatment for business combinations. Under U.K. GAAP, Cadbury wrote off goodwill acquired prior to 1998 against shareholder's equity at the time of acquisition. Goodwill resulting from business combinations between 1998 and 2003 was capitalized, with subsequent measurement based on the attributes of the acquired business. Since the adoption of IFRS, both U.S. GAAP and IFRS require that goodwill not be amortized, and that it be tested on at least an annual basis for potential impairment.

For the purposes of U.S. GAAP, \$2,701 million was added to goodwill to reflect the estimated net impact of accounting differences.

**(b) Intangible Assets**

Prior to the adoption of IFRS, under U.K. GAAP, Cadbury was not required to recognize customer relationships as a separate identifiable intangible asset, which is recognized under U.S. GAAP. Cadbury exercised the IFRS 1 exemption not to restate business combinations upon adoption. As these intangibles are deemed to have a definite life, an amortization charge is recorded under U.S. GAAP that is not present under IFRS.

Also, under IFRS, when an entity increases its interest in an associate such that the associate is then consolidated, any fair value uplift related to the percentage ownership which it previously held is recorded in the financial statements as an increase in the related assets. Any offset to this fair value increase is recorded in shareholders' equity.

For transactions completed before 2009, only the percentage of assets and liabilities acquired in each step of an acquisition are fair valued under U.S. GAAP; no revaluation of assets and liabilities previously acquired is made.

A net reduction of \$865 million was made to intangible assets as of June 30, 2009, to reflect customer relationship and remove the fair value uplift. We recorded additional amortization expense of \$21 million for the six months ended June 30, 2009, and \$52 million for the year ended December 31, 2008, related to the customer relationship intangible assets.

**(c) Retirement Benefits**

Upon the adoption of IFRS, Cadbury elected to recognize all cumulative actuarial gains and losses at the date of transition. Under IFRS, all future actuarial gains and losses are also recognized in full outside the income statement in retained earnings and presented in a statement of recognized income and expense. U.S. GAAP does not permit recognition of all actuarial gains and losses in a separate statement other than the primary income statement.

For the periods ended June 30, 2009 and December 31, 2008, \$30 million and \$60 million of additional expense was recorded, respectively, to recognize actuarial losses which were not recognized under IFRS.

**(d) Interest Capitalization**

Prior to January 1, 2009, Cadbury expensed interest in relation to the construction of qualifying assets. From January 1, 2009, Cadbury adopted International Accounting Standard

## **Table of Contents**

No. 23 (Revised), which required the capitalization of interest on qualifying assets. Under U.S. GAAP, interest is required to be capitalized on capital construction projects and depreciated over the life of the asset.

At June 30, 2009, \$66 million of additional property was recorded to reflect this difference. Interest expense was reduced \$9 million for the six months ended June 30, 2009 and \$6 million for the year ended December 31, 2008, as the interest was capitalized. The net deferred tax impact of these adjustments is included in all the net deferred tax adjustments explained in note 3(i) below.

Also, depreciation expense of \$3 million for the six months ended June 30, 2009, and \$7 million for the year ended December 31, 2008, was recorded.

### **(e) Property, Plant and Equipment**

Under IFRS, when an increase in the interest in an entity results in the entity being consolidated, any fair value uplift related to the percentage ownership previously held is recorded in the financial statements as an increase in the related assets. Any off-set to this fair value increase is recorded in shareholders' equity. For transactions completed before 2009, under U.S. GAAP, only the percentage of assets and liabilities acquired in each step of an acquisition are fair valued.

Also, Cadbury revalued certain properties under U.K. GAAP which was not permitted under U.S. GAAP. This remains a difference between the basis under IFRS and U.S. GAAP.

At June 30, 2009, a decrease of \$130 million was recorded to property, plant and equipment for the net impact of these differences.

### **(f) Derivatives**

Under IFRS, certain derivative instruments were not required to be recognized on Cadbury's balance sheet at fair value until January 3, 2005. Under U.S. GAAP, consistent with IFRS, all derivatives are recorded in the financial statements at fair value. As U.S. GAAP has required derivatives to be held on the balance sheet at fair value since January 1, 2001, there is a difference in the accounting for derivatives under IFRS and U.S. GAAP resulting in an additional liability of \$3 million.

### **(g) Employee Share Arrangements**

Under IFRS, all of Cadbury's employee share awards are equity settled and no liability is recognized for these awards. Expense is based upon the grant date fair value of the share awards. Under U.S. GAAP, certain plans containing inflation indexed earnings growth performance conditions would be accounted for under the liability method. This method requires a liability be recorded until the awards have vested. The fair value of each award classified as a liability must be remeasured at each reporting date until vesting.

An additional liability of \$145 million was recorded in the balance sheet as of June 30, 2009, related to the plans accounted for under the liability method. In the statement of operations, additional compensation expense of \$6 million and \$17 million was recorded for the periods ended June 30, 2009 and December 31, 2008, respectively.

### **(h) Deferred Gain on Sale and Leaseback of Land and Building**

Under IFRS, profit or loss arising on the sale and operating leaseback of property, plant and equipment may generally be recognized in the period in which the sale takes place. Under U.S.

**Table of Contents**

GAAP, a sale and leaseback of property, plant and equipment must first qualify for such accounting and then the profit or loss appraised is recognized depending upon the amount of use that the seller will retain of the property. Otherwise, the gain must be deferred and recognized over the lease period.

In 2006, Cadbury sold a property and leased it back resulting in the deferral of a gain of \$25 million which is recognized over the lease term. Because we do not have sufficient information to determine the annual amount of the gain to be recognized, we adjusted the balance sheet for the deferral of the gain, however no adjustment has been made to the statement of operations.

**(i) Taxation**

An interpretation of U.S. GAAP issued in 2006 clarifies that in order to recognize a tax benefit a position must be more likely than not to be sustained upon an audit. As this interpretation does not exist under IFRS, additional liabilities related to uncertain tax positions may exist under U.S. GAAP, however no adjustment has been made for this difference, if any.

For U.S. GAAP, deferred tax assets for share awards are recorded based on the recorded compensation expense. Under IFRS, deferred tax assets are adjusted to recognize the movement in the intrinsic value of the share awards at the year end. The amount recognized in the income statement is capped at the tax-effected share award charge, with any excess being recognized directly through reserves.

A historic difference related to the deferred tax on intangible assets remains after the transition to IFRS. Under U.K. GAAP, residual payments on certain acquisitions were classified as brand intangibles. Under U.S. GAAP, these were treated as goodwill. Under IFRS, the U.K. GAAP classification was maintained resulting in the recognition of deferred tax liabilities on these brand intangibles. Under U.S. GAAP, no deferred tax liability was recognized as these non-tax deductible amounts were classified as goodwill.

Also, deferred taxes have been provided on the pro forma U.S. GAAP adjustments.

Additional noncurrent assets of \$58 million and reduction of noncurrent liabilities of \$385 million were recorded as of June 30, 2009, for the net impact of the differences described above. In the statement of operations, income tax expense was reduced by \$13 million for the six months ended June 30, 2009 and \$34 million for the year ended December 31, 2008.

Also, under IFRS, Cadbury disclosed the gross deferred tax assets and liabilities as non-current. Under U.S. GAAP, deferred taxes are classified between current and non-current portion, depending on the items they relate to, disclosed separately and presented on a net basis, by tax jurisdiction. Note 3(j) further describes reclassification to reflect this difference.

**(j) Reclassifications**

Certain balances were reclassified from the financial statements of Cadbury so their presentation would be consistent with Kraft Foods.

The following reclassifications were made to the balance sheet as at June 30, 2009 (in millions):

Receivables	\$ (395)
Other assets	395
Deferred income tax assets - current	260
Other noncurrent assets (deferred income tax assets)	(260)
Accounts payable	(1,376)
Other current liabilities	1,376
Short-term borrowings	(822)
Current portion of long-term debt	822



**Table of Contents**

Under IFRS, Cadbury presented cost of sales and marketing, administration, and research costs in a single line item called trading costs. For these financial statements, the trading costs were included in the line item marketing, administration, and research costs. The following reclassifications were made to the statements of operations for the periods ended June 30, 2009 and December 31, 2008 (in millions):

	June 30, 2009	December 31, 2008
Cost of sales	\$ 2,188	\$ 5,383
Interest and other expense, net the removal of interest income on postretirement employee benefits		51
Amortization of intangibles	3	8
Marketing, administration and research costs	(2,191)	(5,442)

**4. OTHER PRO FORMA ADJUSTMENTS SALE OF PIZZA BUSINESS**

Other pro forma adjustments include both the impact of the divestiture of the pizza business and the impact of the purchase consideration and acquisition accounting for the Cadbury purchase.

**(a) Gain on Sale**

Retained earnings have been adjusted by \$1,657 million for the estimated gain from the sale of the business which was calculated as follows (in millions):

		Notes
Total consideration	3,700	
Book value of net assets	(820)	i.
Transaction costs	(13)	ii.
Pre-tax gain	2,867	
Income tax provision	(1,210)	iii.
After-tax gain	1,657	

i. The book value of the assets transferred includes \$85 million of inventories, \$263 million of property, plant and equipment, and \$472 million of goodwill.

ii. Transaction costs

We have estimated that total sale related costs will be \$13 million. These costs have been recorded as a deduction from the sale proceeds in determining the gain on sale.

iii. Income tax provision

We have assumed that the income tax provision was paid using proceeds from the sale.

The total net cash proceeds are assumed to be \$2,477 million after the payment of transaction costs and the income tax provision. We have assumed that these proceeds will be used to finance the Cadbury acquisition, thereby decreasing the amount that will need to be raised by this offering of notes.

**(b) Net Revenues**

Net revenues were reduced \$798 million for the six months ended June 30, 2009, and \$1,440 million for the year ended December 31, 2008, to reflect the removal of the pizza business operations from continuing operations.

S-30

**Table of Contents****(c) Costs of Sales**

Costs of sales were reduced \$480 million for the six months ended June 30, 2009, and \$924 million for the year ended December 31, 2008, to reflect the removal of the pizza business operations from continuing operations.

**(d) Marketing, Administration and Research Costs**

Marketing, administration and research costs were reduced \$150 million for the six months ended June 30, 2009, and \$249 million for the year ended December 31, 2008, to reflect the removal of the pizza business operations from continuing operations.

**(e) Tax Provision Benefit**

The estimated tax provision benefits for these adjustments are \$60 million for the six months ended June 30, 2009, and \$96 million for the year ended December 31, 2008. The tax rate is based on the estimated blended tax rate for tax jurisdictions in which the pizza business operates.

**Note** The pizza business operations we have presented exclude indirect overhead costs we allocated to the business and historically reported as part of its operating results. The indirect overhead costs that are not included with the divested operations of our pizza business were approximately \$52 million for the six months ended June 30, 2009, and approximately \$112 million for the year ended December 31, 2008.

**5. OTHER PRO FORMA ADJUSTMENTS CADBURY TRANSACTION****(a) Estimated Purchase Consideration**

Estimated purchase consideration and related excess purchase consideration over book value of net assets acquired are as follows (in millions):

	Offer	Notes
Cadbury shares outstanding as of February 1, 2010	1,377	i.
Estimated Cadbury shares issued pursuant to conversion of stock options, long term incentive plans, and change in control provisions	38	
<b>Total Cadbury shares and share equivalents prior to transaction</b>	<b>1,415</b>	
Exchange ratio	0.1874	
<b>Total Kraft Foods shares to be issued</b>	<b>265</b>	
Kraft Foods closing share price on February 1, 2010	28.06	
<b>Total value of Kraft Foods shares to be issued</b>	<b>7,436</b>	i.
Total cash consideration paid at 500 pence per Cadbury share	11,245	
<b>Total purchase price</b>	<b>18,681</b>	
Less: book value of net assets acquired	(7,105)	ii.
Less: fair value adjustment for identifiable intangible assets, net of tax	(2,428)	ii.
Residual goodwill	\$ 9,148	ii.

i.

## Edgar Filing: KRAFT FOODS INC - Form 424B2

To complete the acquisition of Cadbury, Cadbury will be acquired by Kraft Foods, pursuant to the offer in which each holder of one Cadbury ordinary share will be entitled to 500 pence in cash and 0.1874 shares of Kraft Foods common stock.

S-31

---

**Table of Contents**

The ordinary share portion of the estimated purchase consideration was calculated using a price of \$28.06 for each share of Kraft Foods common stock based on the closing share price of Kraft Foods common shares on the NYSE on February 1, 2010. The number of shares of Kraft Foods common stock assumed to be issued is 265.0 million.

For purposes of preparing these pro forma financial statements, Kraft Foods has assumed that funding will come from the net proceeds from the sale of the pizza business and this notes offering, as described in the section of this prospectus supplement entitled "Use of Proceeds," less cash acquired upon acquisition of Cadbury. The source of cash for our acquisition of Cadbury may or may not be in whole or in part from this notes offering. The cash portion of the estimated purchase consideration, payable in U.K. pounds, was translated based on an exchange rate of £1 : \$1.5903 on February 1, 2010.

ii. Fair value adjustments

The unaudited condensed consolidated pro forma financial statements have been prepared using Cadbury's publicly available financial statements and disclosures. Therefore, except as noted below, the carrying value of assets and liabilities in Cadbury's financial statements are considered to be a proxy for fair value of those assets and liabilities. In addition, certain pro forma adjustments, such as recording fair value of assets and liabilities and adjustments for consistency of accounting policy, except for the adjustments to reflect Cadbury under U.S. GAAP, are not reflected in these unaudited pro forma consolidated financial statements.

For purposes of the pro forma analysis, the intangible assets of Cadbury have been increased \$3,470 million to a total value of \$5,000 million to reflect our preliminary estimate of the fair value of intangible assets, including trade names and customer lists. A deferred tax liability of \$1,042 million was recorded in connection with this increase. No other adjustment was made to the assets and liabilities of Cadbury to reflect their fair value. Goodwill was increased \$9,148 million to reflect the total excess of the purchase consideration over the fair value of the assets acquired of \$15,270 million. Following completion of the offer, Kraft Foods anticipates that the acquisition cost allocation may differ materially from the preliminary assessment outlined above. Any changes to the initial estimates of the fair value of the assets and liabilities will be allocated to residual goodwill.

At this time there is insufficient information as to the specific nature, age, condition and location of Cadbury's property, plant and equipment to make a reasonable estimation of fair value or the corresponding adjustment to depreciation and amortization. For each \$100 million fair value adjustment to property, plant and equipment, assuming a weighted-average useful life of 10 years, depreciation expense would change by approximately \$10 million.

Once Kraft Foods has complete information as to the specifics of Cadbury's assets, the estimated values assigned to the assets and/or the associated estimated weighted-average useful life of the assets will likely be different than that reflected in these unaudited pro forma condensed combined financial statements and the differences could be material.

**(b) Amortization Expense**

An adjustment to record estimated amortization of \$9 million was made for the six months ended June 30, 2009, and \$18 million for the year ended December 31, 2008. This adjustment was based on the assumption that \$360 million of the recorded intangible assets related to Cadbury would be definite lived. The estimated useful life of these intangible assets is 20 years.

**(c) Interest Expense**

An adjustment to record pro forma interest expense of \$210 million was made for the six months ended June 30, 2009, and \$421 million for the year ended December 31, 2008. The interest charges are based on \$8,333 million of notes being issued as if such amount was issued at January 1, 2008 and outstanding at June 30, 2009. The amount of notes issued is based on \$11,245 million of cash consideration less the net proceeds of \$2,477 million from the sale of the pizza business and \$435 million of cash acquired upon acquisition of Cadbury. The average interest rate on the notes was estimated at 5.05%. A change in this rate of one-eighth of a percent would cause a \$10 million change in annual interest expense.

**Table of Contents**

**(d) Transaction Costs**

We have estimated that total offer-related costs will be \$347 million. These costs have been accrued as a current liability, net of a \$48 million tax benefit. Because we are required to expense these costs as they are incurred, we have charged them to retained earnings as of June 30, 2009. No adjustment has been made to either income statement for these costs as they are non-recurring.

**(e) Tax Provision Benefit**

The estimated tax provision benefits of the above adjustments are \$126 million for the six months ended June 30, 2009, and \$228 million for the year ended December 31, 2008. The tax rate is based on the estimated blended tax rate based on the tax jurisdictions in which Cadbury operates.

**(f) Long-term Debt**

We have assumed that \$8,333 million of notes will be issued in this offering. This amount is based on the \$11,245 million of cash consideration for the acquisition of Cadbury reduced by the \$2,477 million of net proceeds from the sale of the pizza business and \$435 million of cash acquired upon acquisition of Cadbury. Net proceeds of \$2,477 million were calculated based on the \$3,700 million sale price of the pizza business less the payment of \$13 million of transaction costs and the \$1,210 million tax provision.

**(g) Elimination of Cadbury Shareholders' Equity**

An adjustment to eliminate Cadbury's Additional Paid in Capital of \$324 million, Retained Earnings of \$6,102 million and Accumulated Other Comprehensive Income of \$679 million was recorded in the pro forma consolidated balance sheet at June 30, 2009.

**(h) Earnings per Common Share**

Pro forma earnings per common share for the year ended December 31, 2008 and the six months ended June 30, 2009, have been calculated based on the estimated weighted average number of common shares outstanding on a pro forma basis, as described below. The pro forma weighted average number of common shares outstanding for the year ended December 31, 2008 and the six months ended June 30, 2009, have been calculated as if the acquisition shares had been issued and outstanding on January 1, 2008.

**Table of Contents**

The following table sets forth the computation of basic and diluted earnings per share for the six month period ended June 30, 2009 and the year ended December 31, 2008:

	For the Six Months Ended June 30, 2009		For the Year Ended December 31, 2008	
	Historical Kraft Foods	Pro Forma Combined	Historical Kraft Foods	Pro Forma Combined
	(in millions, except per share data)			
Net earnings attributable to Kraft Foods from continuing operations	\$ 1,487	\$ 1,304	\$ 1,839	\$ 1,955
Weighted-average shares for basic EPS	1,476	1,741	1,505	1,770
Plus incremental shares from assumed conversions of stock options and long-term incentive plan shares	8	8	10	10
Weighted-average shares for diluted EPS	1,484	1,749	1,515	1,780
Basic earnings per share attributable to Kraft Foods from continuing operations	\$ 1.01	\$ 0.75	\$ 1.22	\$ 1.10
Diluted earnings per share attributable to Kraft Foods from continuing operations	\$ 1.00	\$ 0.75	\$ 1.21	\$ 1.10

S-34

---

**Table of Contents**

**SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP**

The financial information of Cadbury included in this prospectus supplement has been prepared and presented in accordance with IFRS. Certain differences exist between IFRS and U.S. GAAP which might be material to the financial information included in this prospectus supplement.

The principal relevant differences between U.S. GAAP and IFRS that we believe would be material in the preparation of Cadbury's financial statements are described below. Because Cadbury does not reconcile its financial statements to U.S. GAAP, we cannot be sure that the differences described below are complete or would in fact be the accounting principles creating the most significant differences between financial information of Cadbury prepared under IFRS and U.S. GAAP. The following summary does not include all differences that exist between IFRS and U.S. GAAP and is not intended to provide a comprehensive listing of all such differences specifically related to us, Cadbury or the industry in which we and Cadbury operate.

The differences described below reflect only those differences in accounting policies in force at the time of the preparation of the historical financial information of Cadbury. There has been no attempt to identify future differences between IFRS and U.S. GAAP as the result of prescribed changes in accounting standards, transactions or events that may occur in the future. The organizations that promulgate IFRS and U.S. GAAP have significant projects ongoing that could have a significant impact on future comparisons such as this one between IFRS and U.S. GAAP. Future developments or changes in either IFRS or U.S. GAAP may give rise to additional differences between IFRS and U.S. GAAP which could have a significant impact on us or the combined company.

**Consolidated Financial Statements**

Both IFRS and U.S. GAAP generally require the preparation of consolidated financial statements by a parent entity that includes all subsidiaries. For purposes of consolidation, the definition of a subsidiary is an important distinction between the two frameworks. IFRS focuses solely on the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits in determining whether that subsidiary should be consolidated. Under U.S. GAAP, the need for consolidation is evaluated under both a traditional voting control model and a variable interest model. Consolidated variable interests ( VIE ) are those for which a parent does not have a controlling voting interest, but does absorb the majority of the VIE's expected losses or returns.

**Business Combinations and Goodwill**

Upon adoption of IFRS, entities were permitted to retain their historical GAAP accounting treatment for business combinations. Under U.K. GAAP, Cadbury wrote off goodwill acquired prior to 1998 against shareholder's equity at the time of acquisition. Goodwill resulting from business combinations between 1998 and 2003 was capitalized, with subsequent measurement based on the attributes of the acquired business. Any historical differences between previous GAAP used and U.S. GAAP would continue to exist if this election is applied. Since the adoption of IFRS, both U.S. GAAP and IFRS require that goodwill not be amortized, and that it be tested on at least an annual basis for potential impairment.

Also, under IFRS, where the change of interest in an entity results in an entity previously accounted for as an associated undertaking to being a subsidiary, any fair value uplift related to the percentage ownership previously held is recorded in the financial statements as an increase to the related assets and by the creation of a revaluation reserve, which is amortized into retained earnings over the period that the related depreciation is charged to the income



## **Table of Contents**

statement. Until 2009, under U.S. GAAP, only the percentage of assets and liabilities acquired in each step of an acquisition are fair valued; no revaluation of assets and liabilities previously acquired is made.

### **Intangible Assets**

IFRS permits capitalization of certain internal development costs whereas U.S. GAAP requires all research and development costs to be expensed as incurred. Measurement of acquired intangibles is similar under IFRS and U.S. GAAP, except that IFRS permits reversal of intangible impairment losses under certain conditions whereas reversal is prohibited under U.S. GAAP.

### **Property, Plant and Equipment**

Under IFRS, the use of historical cost or revalued amounts is permitted. Frequent valuations of entire classes of assets are required when the revaluation option is chosen. Under U.S. GAAP, revaluation is not permitted, except for downward revaluation when the asset is impaired.

Under both IFRS and U.S. GAAP, an impairment loss is recognized on long-lived assets held for use when events and circumstances indicate the asset might be impaired. Under IFRS, an impairment charge is recorded to reduce the carrying value to the recoverable amount, while under U.S. GAAP, such impairment charge is recorded only if the estimated undiscounted cash flows to be generated by the asset are less than carrying value. Under IFRS, reversals of impairment losses are recognized under certain conditions, while U.S. GAAP does not permit the reversal of an impairment loss.

Also, on transition to IFRS, Cadbury exercised the exemption available under IFRS to treat the depreciated revalued cost of certain properties as the deemed cost. The revaluation of these properties under U.K. GAAP was not permitted under U.S. GAAP and remains a difference between IFRS and U.S. GAAP.

### **Capitalization of Interest**

Under IFRS, Cadbury elected to not capitalize interest and expenses interest charges to the profit and loss account in the year in which they are incurred. Under U.S. GAAP, interest charges on funds invested in the construction of qualifying assets during the time required to prepare them for their intended use are capitalized and amortized over the life of the respective assets.

### **Accounting for Leases**

Under IFRS, profit or loss arising on the sale and operating leaseback of property, plant and equipment may generally be recognized in the period in which the sale takes place. Under U.S. GAAP, a sale and leaseback of property, plant and equipment must first qualify for such accounting and then profit or loss appraised is recognized depending upon the amount of use that the seller will retain of the property. Where the seller will retain more than a minor part but less than substantially all of the use of the property, any profit up to the present value of the minimum lease payments for an operating lease is deferred and recognized over the lease and any amount in excess of the present value of the minimum lease payments shall be recognized at the date of sale.

## **Table of Contents**

### **Deferred Tax**

Both frameworks follow the principle that a deferred tax liability or asset should be recognized for all temporary differences. IFRS requires entities to measure deferred tax balances on the basis of tax rates that are expected to apply in the period they are settled (realized), which are enacted or substantively enacted by the balance sheet date. Under U.S. GAAP, deferred taxation is provided on all temporary differences between the tax and book bases of assets and liabilities using enacted tax rate at the reporting date; the effects of future changes in tax laws or rates are not anticipated.

Under IFRS, deferred tax is recognized on intra-group transfers of assets and liabilities, including transfers of intellectual property assets. Under U.S. GAAP, the recognition of deferred tax on such transactions is not permitted.

### **Uncertain Tax Positions**

U.S. GAAP requires entities to utilize a two-step process to recognize and measure uncertain tax positions. Tax benefits arising from uncertain tax positions can be recognized only if it is more likely than not that the position is sustainable on its technical merits. IFRS does not specifically address the accounting for uncertain tax positions.

### **Employee Share Compensation**

Under IFRS, all of Cadbury's employee share awards are considered equity settled and hence Cadbury did not recognize a liability within the balance sheet for such arrangements. The income statement charge recorded under IFRS is based upon the grant date fair value of the share awards. Under U.S. GAAP, certain plans which contain inflation-indexed earnings growth performance conditions would be accounted for under the liability method, which would require a liability to be recorded on the balance sheet over the vesting period. In addition, the fair value of each liability-classified award must be remeasured at each reporting date until vesting, whereas for equity-settled employee share awards the charge is calculated with reference to the grant date fair value.

For U.S. GAAP, deferred tax assets for share awards are recorded based on the recorded compensation expense. Under IFRS, deferred tax assets are adjusted to recognize the movement in the intrinsic value of the share awards.

### **Employee Pension Benefits**

Both frameworks require the cost of providing retirement benefits to be recognized on a systematic and rational basis over the period during which employees provide services to the entity. However, with respect to defined benefit plans, IFRS methodology generally provides for more immediate recognition of gains and losses arising from changes in actuarial measurement of obligations, as well as from changes in the market value of plan assets.

Upon the adoption of IFRS, Cadbury elected to recognize all cumulative actuarial gains and losses through equity at the date of transition. U.S. GAAP does not permit this option to recognize all cumulative actuarial gains or losses, and therefore, at the date of transition and in future periods, this difference in timing causes differences between IFRS and U.S. GAAP. Under IFRS, all future actuarial gains and losses are also recognized in full outside the income statement in retained earnings and presented in the statement of recognized income and expense. U.S. GAAP does not permit recognition of all actuarial gains and losses in a statement other than the primary income statement.

**Table of Contents**

**Exit Activities**

Under IFRS, liabilities for employee severance, plant closure and other exit costs may generally be recognized when an entity has formally committed to a plan. U.S. GAAP prohibits the recognition of a liability based solely on an entity's commitment to a plan. Recognition of a provision for one-time termination benefits requires communication of the details of the plan to the affected employees and most other categories of exit costs are recognized as incurred.

S-38

**Table of Contents**

**DESCRIPTION OF NOTES**

The following description of the particular terms of the notes, which we refer to as the notes, supplements the description of the general terms and provisions of the debt securities set forth under Description of Debt Securities beginning on page 4 of the accompanying prospectus. The accompanying prospectus contains a detailed summary of additional provisions of the notes and of the indenture, dated as of October 17, 2001, between Kraft Foods Inc. and Deutsche Bank Trust Company Americas (as successor to The Bank of New York and The Chase Manhattan Bank), as trustee, under which the notes will be issued. To the extent of any inconsistency, the following description replaces the description of the debt securities in the accompanying prospectus. Terms used in this prospectus supplement that are otherwise not defined will have the meanings given to them in the accompanying prospectus.

**Certain Terms of the % Notes due**

We will offer \$ principal amount of the % Notes due as a series of notes under the indenture. Unless an earlier redemption has occurred, the entire principal amount of notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on . The notes will bear interest at the rate of % per annum from , 2010, payable semi-annually in arrears on and of each year, beginning on , 2010, to the persons in whose names the notes are registered at the close of business on the preceding or , each a record date, as the case may be. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

**Certain Terms of the % Notes due**

We will offer \$ principal amount of the % Notes due as a series of notes under the indenture. Unless an earlier redemption has occurred, the entire principal amount of notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on . The notes will bear interest at the rate of % per annum from , 2010, payable semi-annually in arrears on and of each year, beginning on , 2010, to the persons in whose names the notes are registered at the close of business on the preceding or , each a record date, as the case may be. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

**Certain Terms of the % Notes due**

We will offer \$ principal amount of the % Notes due as a series of notes under the indenture. Unless an earlier redemption has occurred, the entire principal amount of notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on . The notes will bear interest at the rate of % per annum from , 2010, payable semi-annually in arrears on and of each year, beginning on , 2010, to the persons in whose names the notes are registered at the close of business on the preceding or , each a record date, as the case may be. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

**Certain Terms of the % Notes due**

We will offer \$ principal amount of the % Notes due as a series of notes under the indenture. Unless an earlier redemption has occurred, the entire principal amount of

**Table of Contents**

notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on . The notes will bear interest at the rate of % per annum from , 2010, payable semi-annually in arrears on and of each year, beginning on , 2010, to the persons in whose names the notes are registered at the close of business on the preceding or , each a record date, as the case may be. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

**General**

In some circumstances, we may elect to discharge our obligations on the notes through full defeasance or covenant defeasance. See Description of Debt Securities Defeasance beginning on page 13 of the accompanying prospectus for more information.

We may, without the consent of the holders of the notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the notes (except for the issue date, issue price, and, in some cases, the first payment of interest or interest accruing prior to the issue date of such additional notes). Any additional notes having such similar terms, together with the applicable series of notes offered by this prospectus, will constitute a single series of notes under the indenture. No additional notes may be issued if an event of default has occurred with respect to the applicable series of notes.

We will not be required to make any mandatory redemption or sinking fund payments with respect to the notes. However, under certain circumstances, we may be required to offer to purchase notes as described under the caption Change of Control. We may at any time and from time to time purchase notes in the open market or otherwise.

**Change of Control**

If a Change of Control Triggering Event (as defined below) occurs, unless we have exercised our right to redeem the notes upon the occurrence of specified events involving U.S. taxation as described below under Redemption for Tax Reasons, holders of notes will have the right to require us to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of their notes pursuant to the offer described below (the Change of Control Offer ) on the terms set forth in the notes. In the Change of Control Offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest, if any, on the notes repurchased, to the date of purchase (the Change of Control Payment ). Within 30 days following any Change of Control Triggering Event, we will be required to mail a notice to holders of notes describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase the notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the Change of Control Payment Date ), pursuant to the procedures required by the notes and described in such notice. We must comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act ) and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the notes, we will be required to comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control provisions of the notes by virtue of such conflicts.

**Table of Contents**

On the Change of Control Payment Date, we will be required, to the extent lawful, to:

accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

deliver or cause to be delivered to the trustee the notes properly accepted together with an officers certificate stating the aggregate principal amount of notes or portions of notes being purchased.

The paying agent will promptly mail to each holder of notes properly tendered the purchase price for the notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new note equal in principal amount to any unpurchased portion of any notes surrendered; provided that each new note will be in a principal amount of \$2,000 or an integral multiple of \$1,000 in excess thereof.

We will not be required to make an offer to repurchase the notes upon a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and such third party purchases all notes properly tendered and not withdrawn under its offer.

Our ability to pay cash to holders of notes following the occurrence of a Change of Control Triggering Event may be limited by our then-existing financial resources. Therefore, sufficient funds may not be available when necessary to make any required repurchases.

For purposes of the foregoing discussion of a repurchase at the option of holders, the following definitions are applicable:

**Below Investment Grade Rating Event** means the notes are rated below an Investment Grade Rating by each of the Rating Agencies (as defined below) on any date from the date of the public notice of an arrangement that could result in a Change of Control (as defined below) until the end of the 60-day period following public notice of the occurrence of the Change of Control (which 60-day period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies); provided that a below investment grade rating event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect to a particular Change of Control (and thus shall not be deemed a below investment grade rating event for purposes of the definition of Change of Control Triggering Event hereunder) if the rating agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the trustee in writing at its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the below investment grade rating event).

**Change of Control** means the occurrence of any of the following: (i) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Kraft Foods and its subsidiaries taken as a whole to any Person (as defined below) or group of related persons for purposes of Section 13(d) of the Exchange Act (a Group) other than Kraft Foods or one of its subsidiaries; (ii) the approval by the holders of our common stock of any plan or proposal for the liquidation or dissolution of Kraft Foods (whether or not otherwise in compliance with the provisions of the indenture); (iii) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any Person or Group becomes the beneficial owner, directly or indirectly, of more than 50% of the

## **Table of Contents**

then outstanding number of shares of Kraft Foods voting stock; or (iv) the first day on which a majority of the members of Kraft Foods Board of Directors are not Continuing Directors (as defined below).

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of Kraft Foods and its subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require Kraft Foods to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Kraft Foods and its subsidiaries taken as a whole to another Person or Group may be uncertain.

Change of Control Triggering Event means the occurrence of both a Change of Control and a Below Investment Grade Rating Event.

Continuing Directors means, as of any date of determination, any member of the Board of Directors of Kraft Foods who (i) was a member of such Board of Directors on the date of the issuance of the notes; or (ii) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election (either by a specific vote or by approval of Kraft Foods proxy statement in which such member was named as a nominee for election as a director, without objection to such nomination).

Fitch means Fitch, Inc.

Investment Grade Rating means a rating equal to or higher than BBB- (or the equivalent) by Fitch, Baa3 (or the equivalent) by Moody's (as defined below) and BBB- (or the equivalent) by S&P (as defined below), respectively.

Moody's means Moody's Investors Service, Inc.

Person has the meaning set forth in the indenture and includes a person as used in Section 13(d)(3) of the Exchange Act.

Rating Agencies means (i) each of Fitch, Moody's and S&P; and (ii) if any of Fitch, Moody's or S&P ceases to rate the notes or fails to make a rating of the notes publicly available for reasons outside of our control, a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, selected by us (as certified by a resolution of our Board of Directors) as a replacement agency for Fitch, Moody's or S&P, or all of them, as the case may be.

S&P means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

## **Book-Entry Notes**

The notes will be offered and sold in principal amounts of \$2,000 and integral multiples of \$1,000 in excess thereof. We will issue the notes in the form of one or more permanent global notes in fully registered, book-entry form, which we refer to as the global notes. Each such global note will be deposited with, or on behalf of, The Depository Trust Company (DTC) or any successor thereto, as depository (the Depository), and registered in the name of Cede & Co. (DTC's partnership nominee). Unless and until it is exchanged in whole or in part for notes in definitive form, no global note may be transferred except as a whole by the Depository to a nominee of such Depository. Investors may elect to hold interests in the global notes through either the Depository (in the U.S.) or through Clearstream Banking, société anonyme,

---

**Table of Contents**

Luxembourg ( Clearstream ) or Euroclear Bank S.A./N.V., as operator of the Euroclear System ( Euroclear ), if they are participants in such systems, or indirectly through organizations that are participants in such systems.

The information set forth in this section is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Clearstream and Euroclear currently in effect. The information in this section concerning DTC, Clearstream and Euroclear has been obtained from sources that we believe to be reliable, but we do not take any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of DTC, Clearstream or Euroclear are advised to confirm the continued applicability of the rules, regulations and procedures of DTC, Clearstream or Euroclear. We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the notes held through the facilities of DTC, Clearstream or Euroclear or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Clearstream and Euroclear each will hold interests on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories, which in turn will hold such interests in customers' securities accounts in the depositories' names on the books of DTC. Citibank, N.A. will act as depository for Clearstream and JPMorgan Chase Bank, N.A. will act as depository for Euroclear (in such capacities, the U.S. Depositories ).

DTC has advised us that:

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provision of Section 17A of the Exchange Act.

DTC holds securities that its participants ( Direct Participants ) deposit with DTC and facilitates post-trade settlement among its Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between accounts of the Direct Participants. This eliminates the need for physical movement of securities certificates.

Direct Participants in DTC include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ( DTCC ). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries.

Access to DTC's book-entry system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ( Indirect Participants ).

The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

Purchases of the notes under DTC's book-entry system must be made by or through Direct Participants, which will receive a credit for the notes on the records of DTC. The ownership interest of each actual purchaser of the notes, which we refer to as the beneficial owner, is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to



## **Table of Contents**

receive written confirmations providing details of the transaction, as well as periodic statements of their holdings from the Direct or Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the global notes will be effected only through entries made on the books of Direct and Indirect Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the global notes, except in the event that use of the book-entry system for the notes is discontinued. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in the global notes.

To facilitate subsequent transfers, all global notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the global notes with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as DTC or its nominee is the registered owner and holder of the global notes, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the notes represented by the global notes for all purposes under the indenture. Except as described below, beneficial owners of interests in the global notes will not be entitled to have book-entry notes represented by the notes registered in their names, will not receive or be entitled to receive physical delivery of notes in definitive form and will not be considered the owners or holders thereof under the indenture. Accordingly, each beneficial owner must rely on the procedures of DTC and, if the person is not a Direct or Indirect Participant, on the procedures of the Direct or Indirect Participants through which such person owns its interest, to exercise any rights of a holder under the indenture. We understand that under existing industry practices, in the event that we request any action of holders or that an owner of a beneficial interest in the notes desires to give or take any action which a holder is entitled to give or take under the indenture, DTC would authorize the Direct Participants holding the relevant beneficial interests to give or take the action, and those Direct or any Indirect Participants would authorize beneficial owners owning through those Direct or Indirect Participants to give or to take the action or would otherwise act upon the instructions of beneficial owners.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and/or Indirect Participants to beneficial owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all of the notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent with respect to notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Payments of principal of and interest on the notes and redemption proceeds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. We will send all required reports and notices solely to DTC as long as DTC is the registered

---

**Table of Contents**

holder of the global notes. Neither we, the trustee, nor any other agent of ours or agent of the trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in global notes or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests. We believe, however, that it is currently the policy of DTC to credit the accounts of the Direct Participants upon DTC's receipt of funds and corresponding detail information from us or our agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name and will be the responsibility of the Direct or Indirect Participants subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal of and interest on the notes and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of us or our agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the beneficial owners will be the responsibility of Direct and Indirect Participants.

A beneficial owner shall give notice to elect to have its notes purchased or tendered, through its Participant, to the tender agent, and shall effect delivery of such notes by causing the Direct Participant to transfer the Participant's interest in the notes, on DTC's records, to the tender agent. The requirement for physical delivery of notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered notes to the tender agent's DTC account.

DTC may discontinue providing its services as depository with respect to the notes at any time by giving reasonable notice to us or our agent. Under such circumstances, in the event that a successor depository is not obtained, physical notes are required to be printed and delivered. We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Clearstream advises that it is incorporated as a limited liability company under the laws of Luxembourg. Clearstream is owned by Cedel International, société anonyme, and Deutsche Börse AG. The shareholders of these two entities are, amongst others, financial institutions and institutional investors. Clearstream holds securities for its participating organizations ( Clearstream Participants ) and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with a Clearstream Participant. In the U.S., Clearstream Participants are limited to securities brokers and dealers and banks, and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant either directly or indirectly. Clearstream is an indirect participant in DTC. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries.

## **Table of Contents**

Clearstream has established an electronic bridge with Euroclear Bank S.A./N.V. to facilitate settlement of trades between Clearstream and Euroclear. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector.

Distributions with respect to the notes held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by Clearstream.

Euroclear advises that it was created in 1968 to hold securities for participants of Euroclear ( Euroclear Participants ) and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. The Euroclear System is owned by Euroclear Clearance System Public Limited Company (ECSplc) and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the Euroclear Operator ), under contract with Euroclear Clearance Systems S.C., a Belgian cooperative corporation (the Cooperative ). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

The Euroclear Operator advises that it is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the Terms and Conditions ). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depository for Euroclear.

Notes will not be issued in definitive form except in very limited circumstances. If any of Euroclear, Clearstream or DTC notifies us that it is unwilling or unable to continue as a clearing system in connection with the global notes or, in the case of DTC only, DTC ceases to be a clearing system registered under the Exchange Act, and in each case a successor clearing system is not appointed by us within 90 days after receiving such notice from Euroclear, Clearstream or DTC or on becoming aware that DTC is no longer so registered, we will issue or cause to be issued individual certificates in registered form on registration of transfer of, or in exchange for, book-entry interests in the notes represented by such global notes upon delivery of such global notes for cancellation.

## **Table of Contents**

### **Global Clearance and Settlement Procedures**

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between the Direct or Indirect Participants will occur in the ordinary way in accordance with the Depository's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System. Secondary market trading between Clearstream Participants and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream or Euroclear Participants, on the other, will be effected in DTC in accordance with the DTC rules on behalf of the relevant European international clearing system by its U.S. Depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depository to take action to effect final settlement on its behalf by delivering interests in the notes to or receiving interests in the notes from DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to DTC.

Because of time-zone differences, credits of interests in the notes received in Clearstream or Euroclear as a result of a transaction with a Depository Participant will be made during subsequent securities settlement processing and will be credited the business day following the DTC settlement date. Such credits or any transactions involving interests in such notes settled during such processing will be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of interests in the notes by or through a Clearstream Participant or a Euroclear Participant to a Depository Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

DTC, Clearstream and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in global notes among participants and accountholders of DTC, Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. We will not be responsible for any performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and we will have no liability for any aspect of the records relating to or payments made on account of beneficial interests in the notes represented by global notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

### **Notices**

Notices to holders of the notes will be sent by mail or email to the registered holders.

---

**Table of Contents**

**Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay to the beneficial owner of any note who is a Non-U.S. Holder (as defined below under Certain U.S. Federal Income Tax Considerations ) or is a partnership that is not created or organized in or under the laws of the U.S. or any political subdivision thereof such additional amounts as may be necessary to ensure that every net payment on such note, after deduction or withholding by us or any of our paying agents for or on account of any present or future tax, assessment or other governmental charge imposed upon or as a result of such payment by the U.S. or any political subdivision or taxing authority of the U.S., will not be less than the amount provided in such note to be then due and payable. However, we will not pay additional amounts if the beneficial owner is subject to taxation solely for reasons other than its ownership of the note, nor will we pay additional amounts for or on account of:

- (a) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the existence of any present or former connection (other than the mere fact of being a beneficial owner of a note) between the beneficial owner (or between a fiduciary, settlor, beneficiary or person holding a power over such beneficial owner, if the beneficial owner is an estate or trust, or a partner, member or shareholder of the beneficial owner, if the beneficial owner is a partnership, limited liability company or corporation) of a note and the U.S., including, without limitation, such beneficial owner (or such fiduciary, settlor, beneficiary, person holding a power, partner, member or shareholder) being or having been a citizen or resident of the U.S. or treated as being or having been a resident thereof;
- (b) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the beneficial owner (or a fiduciary, settlor, beneficiary or person holding a power over such beneficial owner, if the beneficial owner is an estate or trust, or a partner, member or shareholder of the beneficial owner, if the beneficial owner is a partnership, limited liability company or corporation) (i) being or having been present in, or engaged in a trade or business in, the U.S., (ii) being treated as having been present in, or engaged in a trade or business in, the U.S., or (iii) having or having had a permanent establishment in the U.S.;
- (c) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the beneficial owner (or a fiduciary, settlor, beneficiary or person holding a power over such beneficial owner, if the beneficial owner is an estate or trust, or a partner, member or shareholder of the beneficial owner, if the beneficial owner is a partnership, limited liability company or corporation) being or having been with respect to the U.S. a personal holding company, a controlled foreign corporation, a passive foreign investment company, a foreign private foundation or other foreign tax-exempt organization, or being a corporation that accumulates earnings to avoid U.S. federal income tax;
- (d) any tax, assessment or other governmental charge imposed on a beneficial owner that actually or constructively owns 10% or more of the total combined voting power of all of our classes of stock that are entitled to vote within the meaning of Section 871(h)(3) of the Internal Revenue Code of 1986, as amended (the Code );
- (e) any tax, assessment or other governmental charge which would not have been so imposed but for the presentation of such note for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which such payment is duly provided for, whichever occurs later;
- (f) any tax, assessment or other governmental charge that is payable by any method other than withholding or deduction by us or any paying agent from payments in respect of such note;

---

**Table of Contents**

(g) any gift, estate, inheritance, sales, transfer, personal property or excise tax or any similar tax, assessment or other governmental charge;

(h) any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment in respect of any note if such payment can be made without such withholding by at least one other paying agent;

(i) any tax, assessment or other governmental charge that is imposed or withheld by reason of a change in law, regulation, or administrative or judicial interpretation that becomes effective more than 15 days after the payment becomes due or is duly provided for, whichever occurs later;

(j) any tax, assessment or other governmental charge imposed as a result of the failure of the holder or beneficial owner of a note to comply with a request to comply with applicable certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the U.S. of the holder or beneficial owner of a note, if such compliance is required by statute or regulation of the U.S. as a precondition to relief or exemption from such tax, assessment or other governmental charge;

(k) any tax, assessment or other governmental charge imposed by reason of the failure of the beneficial owner to fulfill the statement requirements of Section 871(h) or Section 881(c) of the Code; or

(l) any combination of items (a) through (k) above.

In addition, we will not pay additional amounts to a beneficial owner of a note that is a fiduciary, partnership, limited liability company or other fiscally transparent entity, or to a beneficial owner of a note that is not the sole beneficial owner of such note, as the case may be. This exception, however, will apply only to the extent that a beneficiary or settlor with respect to the fiduciary, or a beneficial owner, partner or member of the partnership, limited liability company or other fiscally transparent entity, would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner, partner or member received directly its beneficial or distributive share of the payment. For purposes of this paragraph, the term *beneficial owner* includes any person holding a note on behalf of or for the account of a beneficial owner.

**Redemption for Tax Reasons**

Each series of the notes will mature and be redeemed at par on their respective maturity dates of \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ and are not redeemable prior to maturity except upon the occurrence of a Change of Control Triggering Event or certain tax events described below.

We may redeem a series of notes prior to maturity in whole, but not in part, on not more than 60 days' notice and not less than 30 days' notice at a redemption price equal to the principal amount of such notes plus any accrued interest and additional amounts to the date fixed for redemption if:

as a result of a change in or amendment to the tax laws, regulations or rulings of the U.S. or any political subdivision or taxing authority of or in the U.S. or any change in official position regarding the application or interpretation of such laws, regulations or rulings (including a holding by a court of competent jurisdiction in the U.S.) that is announced or becomes effective on or after \_\_\_\_\_, \_\_\_\_\_, we have or will become obligated to pay additional amounts with respect to the notes as described above under *Payment of Additional Amounts*, and we, in our business judgment, determine that such obligations cannot be avoided by the use of reasonable measures available to us; or

**Table of Contents**

on or after \_\_\_\_\_, any action is taken by a taxing authority of, or any decision has been rendered by a court of competent jurisdiction in, the U.S. or any political subdivision of or in the U.S., including any of those actions specified above, whether or not such action was taken or decision was rendered with respect to us, or any change, amendment, application or interpretation is officially proposed, which, in any such case, in the written opinion of independent legal counsel of recognized standing, will result in a material probability that we will become obligated to pay additional amounts with respect to the notes, and we, in our business judgment, determine that such obligations cannot be avoided by the use of reasonable measures available to us.

If we exercise our option to redeem the notes, we will deliver to the trustee a certificate signed by an authorized officer stating that we are entitled to redeem the notes and an opinion of independent tax counsel to the effect that the circumstances described in the above bullets exist.

S-50

---

**Table of Contents**

**CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a general summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes. This discussion is based upon the Code, the U.S. Treasury regulations promulgated thereunder, administrative pronouncements and judicial decisions, all as of the date hereof and all of which are subject to change, possibly with retroactive effect. Unless otherwise indicated, this summary addresses only the U.S. federal income tax consequences relevant to investors who purchase notes at the time of original issuance at their issue price and applies only to beneficial owners that hold the notes as capital assets within the meaning of section 1221 of the Code.

This summary does not address all of the U.S. federal income tax considerations that may be relevant to a particular holder in light of the holder's individual circumstances or to holders subject to special rules under U.S. federal income tax laws, such as banks and other financial institutions, insurance companies, real estate investment trusts, regulated investment companies, tax-exempt organizations, entities and arrangements classified as partnerships for U.S. federal income tax purposes and other pass-through entities, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting, persons liable for U.S. federal alternative minimum tax, U.S. Holders (as defined below) whose functional currency is not the U.S. dollar, U.S. expatriates, and persons holding notes as part of a straddle, hedge, conversion transaction, or other integrated investment. The discussion does not address any foreign, state, local or non-income tax consequences of the acquisition, ownership or disposition of the notes.

As used in this prospectus, the term U.S. Holder means a beneficial owner of a note that is for U.S. federal income tax purposes:

an individual citizen or resident of the U.S.;

a corporation created or organized in or under the laws of the U.S., any State within the U.S., or the District of Columbia;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, if (i) a U.S. court is able to exercise primary supervision over the trust's administration and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust, or (ii) the trust has in effect a valid election to be treated as a United States person (as defined in the Code).

The term Non-U.S. Holder means any beneficial owner of a note that is not a U.S. Holder and is not a partnership (including any entity or arrangement properly classified as a partnership for U.S. federal income tax purposes). For the purposes of this prospectus, U.S. Holders and Non-U.S. Holders are referred to collectively as Holders.

If a partnership (or other entity or arrangement classified as a partnership for U.S. federal income tax purposes) is a beneficial owner of a note, the U.S. federal income tax treatment of a partner in that partnership will generally depend upon the status of the partner and the activities of the partnership. A beneficial owner of a note that is a partnership and partners in such partnerships are urged to consult with their own tax advisors regarding the U.S. federal income and other tax consequences of the acquisition, ownership and disposition of the notes.

This discussion is for general purposes only. Holders are urged to consult their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations and the consequences under federal estate or gift tax laws, as well as foreign, state, or local laws and tax treaties, and the possible effects of changes in tax laws.



## **Table of Contents**

### **U.S. Federal Income Taxation of U.S. Holders**

#### *Payments of Interest*

Interest on notes beneficially owned by a U.S. Holder will generally be taxable as ordinary interest income at the time it is paid or accrued in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

#### *Sale, Exchange, Redemption or Other Taxable Disposition of the Notes*

Upon the sale, exchange, redemption or other taxable disposition of the notes, a U.S. Holder will generally recognize gain or loss equal to the difference, if any, between (i) the amount realized upon the sale, exchange, redemption or other taxable disposition of the notes, other than amounts attributable to accrued and unpaid interest (which will be taxed as ordinary interest income to the extent such interest has not been previously included in income) and (ii) the U.S. Holder's adjusted tax basis in the notes. The amount realized by a U.S. Holder is the sum of cash plus the fair market value of all other property received on such sale, exchange, redemption or other taxable disposition. A U.S. Holder's adjusted tax basis in the notes will generally be the cost of the notes to such U.S. Holder.

The gain or loss a U.S. Holder recognizes on the sale, exchange, redemption or other taxable disposition of the notes will generally be capital gain or loss. Such gain or loss will generally be long-term capital gain or loss if, at the time of the sale, exchange, redemption, or other taxable disposition, the U.S. Holder's holding period in the note exceeds one year. For non-corporate U.S. Holders, long-term capital gains are currently taxed at a lower rate than ordinary income. The deductibility of capital losses is subject to limitations. U.S. Holders are urged to consult their own tax advisors regarding the deductibility of capital losses in light of their particular circumstances.

#### *Backup Withholding and Information Reporting*

In general, a U.S. Holder that is not an exempt recipient (such as a corporation) will be subject to U.S. federal backup withholding tax at the applicable rate (currently 28%) with respect to payments on the notes and the proceeds of a sale, exchange, redemption or other taxable disposition of the notes, unless the U.S. Holder provides its taxpayer identification number to the paying agent and certifies, under penalty of perjury, that it is not subject to backup withholding on an Internal Revenue Service Form W-9 (Request for Taxpayer Identification Number and Certification) and otherwise complies with the applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder may be allowed as a credit against such U.S. Holder's U.S. federal income tax liability and may entitle such U.S. Holder to a refund, provided the required information is furnished to the Internal Revenue Service in a timely manner. In addition, payments on the notes made to, and the proceeds of a sale or other taxable disposition by, a U.S. Holder will generally be subject to information reporting requirements, unless such U.S. Holder is a corporation or other exempt recipient and appropriately establishes that exemption.

### **U.S. Federal Income Taxation of Non-U.S. Holders**

#### *Payments of Interest*

Subject to the discussion below under Backup Withholding and Information Reporting, a Non-U.S. Holder will not generally be subject to U.S. federal income or withholding tax on interest paid on the notes so long as that interest is not effectively connected with the

---

**Table of Contents**

Non-U.S. Holder's conduct of a trade or business within the U.S. (and, if a treaty applies, is not attributable to a permanent establishment maintained by the Non-U.S. Holder in the U.S.) and:

the Non-U.S. Holder does not, directly or indirectly, actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote;

the Non-U.S. Holder is not a controlled foreign corporation for U.S. federal income tax purposes that is related to us, actually or by attribution, through stock ownership;

the Non-U.S. Holder is not a bank receiving the interest pursuant to a loan agreement entered into in the ordinary course of the Non-U.S. Holder's trade or business; and either

(i) the Non-U.S. Holder certifies under penalties of perjury on Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding) or a suitable substitute form that it is not a United States person (as defined in the Code), and provides its name and address, and U.S. taxpayer identification number, if any, or (ii) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds the notes on behalf of the Non-U.S. Holder certifies under penalties of perjury that the certification referred to in clause (i) has been received from the Non-U.S. Holder or an intermediate financial institution and furnishes to us a copy thereof.

A Non-U.S. Holder that does not qualify for exemption from withholding as described above will generally be subject to withholding of U.S. federal income tax at a rate of 30% on payments of interest on the notes (except as described below with respect to effectively connected income). A Non-U.S. Holder may be entitled to the benefits of an income tax treaty under which interest on the notes is subject to a reduced rate of withholding tax or is exempt from U.S. withholding tax, provided the Non-U.S. Holder furnishes us with a properly executed Form W-8BEN claiming the reduction or exemption and the Non-U.S. Holder complies with any other applicable procedures.

Special rules regarding exemption from, or reduced rates of, U.S. withholding tax may apply in the case of notes held by partnerships or certain types of trusts. Partnerships and trusts that are prospective purchasers of the notes are urged to consult their tax advisors regarding special rules that may be applicable in their particular circumstances.

*Sale, Exchange, Redemption or Other Taxable Disposition of the Notes*

Generally, any gain recognized by a Non-U.S. Holder on the sale, exchange, redemption or other taxable disposition of a note (other than amounts attributable to accrued and unpaid interest, which will be treated as described under "Payments of Interest" above) will be exempt from U.S. federal income and withholding tax, unless:

the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the U.S. (and, if a treaty applies, is attributable to a permanent establishment maintained by the Non-U.S. Holder in the U.S.); or

the Non-U.S. Holder is an individual who is present in the U.S. for 183 days or more during the taxable year of the sale or other disposition, and certain other conditions are met.

*Effectively Connected Income*

If interest or gain recognized by a Non-U.S. Holder on a note is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the U.S. (and, if a treaty applies, is attributable to a permanent establishment maintained by the Non-U.S. Holder in the U.S.), the



---

**Table of Contents**

Non-U.S. Holder will be exempt from the withholding tax previously discussed if the Non-U.S. Holder provides us with a properly completed and executed Form W-8ECI (Certificate of Foreign Person's Claim That Income Is Effectively Connected With the Conduct of a Trade or Business in the U.S.), but the Non-U.S. Holder will generally be subject to U.S. federal income tax on such interest or gain as if it were a United States person (as defined in the Code). In addition to such U.S. federal income tax, if the Non-U.S. Holder is treated as a corporation for U.S. federal income tax purposes, it may be subject to an additional branch profits tax at a rate of 30%, or such lower rate provided by an applicable income tax treaty.

*Backup Withholding and Information Reporting*

Under current U.S. Treasury regulations, we must report annually to the Internal Revenue Service and to each Non-U.S. Holder the amount of interest paid to the Non-U.S. Holder and the amount of tax withheld, if any, from those payments. These reporting requirements apply regardless of whether U.S. withholding tax on such payments was reduced or eliminated by any applicable tax treaty or otherwise. Copies of the information returns reporting those payments and the amounts withheld may also be made available to the tax authorities in the country where a Non-U.S. Holder is a resident under the provisions of an applicable income tax treaty or agreement.

Under some circumstances, U.S. Treasury regulations require backup withholding and additional information reporting on payments of interest and other reportable payments. Such backup withholding and additional information reporting will not apply to payments on the notes made by us or our paying agent to a Non-U.S. Holder if the certification described above under Payments of Interest is received from the Non-U.S. Holder.

Backup withholding and information reporting will generally not apply to payments of proceeds from the sale or other disposition of a note made to a Non-U.S. Holder by or through the foreign office of a broker. However, information reporting requirements, and possibly backup withholding, will apply if such broker is, for U.S. federal income tax purposes, a United States person (as defined in the Code) or has certain other enumerated connections with the U.S, unless such broker has documentary evidence in its records that the Non-U.S. Holder is not a United States person (as defined in the Code) and certain other conditions are met, or the Non-U.S. Holder otherwise establishes an exemption. Payments of proceeds from the sale or other disposition of a note made to a Non-U.S. Holder by or through the U.S. office of a broker are subject to information reporting and backup withholding at the applicable rate unless the Non-U.S. Holder certifies, under penalties of perjury, that it is not a United States person (as defined in the Code) and it satisfies certain other conditions, or the Non-U.S. Holder otherwise establishes an exemption. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a Non-U.S. Holder may be allowed as a credit against such Non-U.S. Holder's U.S. federal income tax liability and may entitle such Non-U.S. Holder to a refund, provided the required information is furnished to the Internal Revenue Service in a timely manner.

Non-U.S. Holders are urged to consult their tax advisors regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom, and the procedures for obtaining such an exemption, if available.

Recently proposed legislation (which was passed by the House of Representatives) would generally impose, effective for payments made after December 31, 2012, a withholding tax of 30% on interest income from, and the gross proceeds of a disposition of, debt obligations paid to certain foreign entities unless various information reporting requirements are satisfied. There can be no assurance as to whether or not this proposed legislation will be enacted, and, if it is

**Table of Contents**

enacted, what form it will take or when it will be effective. Non-U.S. Holders are encouraged to consult their own tax advisors regarding the possible implications of this proposed legislation on their investment in the notes.

**The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a Holder's particular situation. Holders are urged to consult their own tax advisors with respect to the tax consequences to them of the acquisition, ownership and disposition of the notes, including the tax consequences under state, local, estate, foreign and other tax laws and tax treaties and the possible effects of changes in U.S. or other tax laws.**

S-55

**Table of Contents****UNDERWRITING**

We and BNP Paribas Securities Corp., Citigroup Global Markets Inc., Deutsche Bank Securities Inc., HSBC Securities (USA) Inc. and RBS Securities Inc., as representatives of the underwriters for the offering named below, have entered into an amended and restated underwriting agreement and a terms agreement with respect to the notes. Subject to certain conditions, each underwriter has severally agreed to purchase the principal amount of notes indicated in the following table.

<b>Underwriter</b>	<b>\$ Principal Amount of % Notes due</b>	<b>\$ Principal Amount of % Notes due</b>	<b>\$ Principal Amount of % Notes due</b>	<b>\$ Principal Amount of % Notes due</b>
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.				
SG Americas Securities, LLC				
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

The underwriters are committed to take and pay for all of the notes being offered, if any are taken. Notes sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. If all the notes are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms.

The notes are new issues of securities with no established trading market. We have been advised by the underwriters that the underwriters intend to make a market in the notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

In connection with the offering, the underwriters may purchase and sell notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of notes than they are required to purchase in the offering. The underwriters may close out any short positions by purchasing notes in the open market. A short position is more likely to be created if underwriters expect that there may be downward pressure on the price of the notes in the open market while the offering is in progress. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters, as well as other purchases by the underwriters for their own accounts, may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

## **Table of Contents**

We expect that delivery of the notes will be made against payment therefor on the date specified on the cover of this prospectus supplement, which will be the second business day following the trade date of the notes. Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Purchasers of notes who wish to trade any notes should consult their advisor.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive (as defined below) is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes in that Relevant Member State at any time:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than 43,000,000; and (iii) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the representative for any such offer; or
- (d) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive, provided that no such offer of notes shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in that Relevant Member State.

For the purposes of this provision, the expression offer of notes to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each underwriter has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the FSMA)) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

---

**Table of Contents**

The notes may not be offered or sold in Hong Kong by means of any document other than (a) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (b) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (c) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

The notes offered hereby have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948 as amended, the FIEL ) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (b) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; (ii) where no consideration is given for the transfer; or (iii) by operation of law.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$ .

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

Certain of the underwriters and their affiliates have in the past provided, and may in the future provide, investment banking, commercial banking, derivative transactions and financial advisory services to us and our affiliates in the ordinary course of business. Specifically,



**Table of Contents**

affiliates of the underwriters serve in various roles under our revolver. Deutsche Bank Securities Inc., Citigroup Global Markets Inc. and HSBC Securities (USA) Inc. act as joint bookrunners; Deutsche Bank AG New York Branch and Citibank, N.A. act as co-administrative agents; Deutsche Bank AG New York Branch acts as paying agent; HSBC Securities (USA) Inc. acts as syndication agent; Credit Suisse (USA) LLC acts as co-documentation agent and Deutsche Bank Securities Inc., Citigroup Global Markets Inc., HSBC Securities (USA) Inc., Barclays Capital, the investment banking division of Barclays Bank plc, BBVA Securities, Inc., BNP Paribas Securities Corp., Credit Suisse Securities (USA) LLC, RBS Securities, Inc. and SG Americas Securities, LLC act as joint lead arrangers. Deutsche Bank AG New York, an affiliate of Deutsche Bank Securities Inc., Citibank, N.A., an affiliate of Citigroup Global Markets Inc., HSBC Bank USA, National Association, an affiliate of HSBC Securities (USA) Inc., Credit Suisse AG, Cayman Islands Branch, an affiliate of Credit Suisse Securities (USA) LLC, Barclays Bank plc, an affiliate of Barclays Capital, Inc., Banco Bilbao Vizcaya Argentaria S.A., New York Branch, an affiliate of BBVA Securities Inc., BNP Paribas, an affiliate of BNP Paribas Securities Corp., and The Royal Bank of Scotland, an affiliate of RBS Securities Inc., are lenders under our revolver.

In addition, affiliates of the underwriters serve in various roles under our bridge loan facility. Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and HSBC Securities (USA) Inc. act as joint bookrunners, and Citibank, N.A. and Deutsche Bank AG Cayman Islands Branch act as co-administrative agents. Citibank, N.A., Deutsche Bank AG Cayman Islands Branch, Deutsche Bank AG, London Branch, HSBC Bank USA, National Association, Barclays Bank Plc, Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, BNP Paribas Securities Corp., Credit Suisse AG, Cayman Islands Branch, The Royal Bank of Scotland plc and Société Générale are lenders under our bridge loan facility. We may borrow additional funds under our bridge loan facility to the extent that the net proceeds from the sale of the offered notes are not sufficient to finance the acquisition of Cadbury.

Deutsche Bank Trust Company Americas, an affiliate of Deutsche Bank Securities Inc., will act as trustee under the indenture governing the notes, for which Deutsche Bank Trust Company Americas will receive customary fees.

---

**Table of Contents**

**INCORPORATION BY REFERENCE**

The SEC allows us to incorporate information into this prospectus supplement by reference, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus supplement, except for any information superseded by information contained directly in this prospectus supplement. These documents contain important information about Kraft Foods and Cadbury and their financial condition, business and results.

We are incorporating by reference the filings of Kraft Foods listed below and any additional documents that we may file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act on or after the date of the filing of this prospectus supplement and prior to the termination of the offering; provided, however, that we are not incorporating by reference any information furnished (but not filed) under Item 2.02 or Item 7.01 of any Current Report on Form 8-K:

our Annual Report on Form 10-K for the year ended December 31, 2008 (including the portions of our proxy statement for our 2009 annual meeting of shareholders incorporated by reference therein) and our Current Report on Form 8-K filed with the SEC on November 3, 2009 (as to Items 8.01 and 9.01), which updates the financial information in our Annual Report on Form 10-K;

our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2009, June 30, 2009 and September 30, 2009;

our Current Reports on Form 8-K filed with the SEC on January 15, 2009, January 20, 2009, February 2, 2009, February 26, 2009, March 4, 2009, March 18, 2009, March 26, 2009 (Item 8.01 information only), May 7, 2009, May 21, 2009, June 22, 2009, July 31, 2009, September 8, 2009 (as to Item 5.02), September 8, 2009 (Item 8.01 information only), October 6, 2009, November 9, 2009 (as to Items 1.01 and 2.03), November 9, 2009 (Item 8.01 information only), December 1, 2009, December 4, 2009 (Item 8.01 information only), December 22, 2009, January 6, 2010, January 20, 2010 (Item 1.01 and 2.03 information only) and February 1, 2010; and

our Current Report on Form 8-K filed with the SEC on February 3, 2010 and which includes (i) the section entitled Item 3: Key Information Risk Factors contained in Cadbury's Annual Report on Form 20-F for the year ended December 31, 2008, (ii) the audited financial statements of Cadbury for the year ended December 31, 2008 and (iii) the unaudited financial data of Cadbury for the period ended June 30, 2009.

You may obtain any of these documents from the SEC at the SEC's Internet website at <http://www.sec.gov>. You may also obtain a free copy of any of these filings from us by telephoning or writing to us at the following address and telephone number:

Kraft Foods Inc.

Three Lakes Drive

Northfield, IL 60093

Attention: Office of the Corporate Secretary

Telephone: (847) 646-2000

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT, OR TO WHICH WE HAVE REFERRED YOU, IN MAKING YOUR DECISIONS WHETHER TO INVEST IN THE NOTES. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT DIFFERS FROM THAT CONTAINED IN THIS PROSPECTUS SUPPLEMENT. THIS PROSPECTUS SUPPLEMENT IS DATED \_\_\_\_\_, 2010. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT IS ACCURATE AS OF ANY DATE OTHER THAN THAT DATE, UNLESS WE OTHERWISE NOTE IN THIS PROSPECTUS SUPPLEMENT.



**Table of Contents**

**EXPERTS**

Kraft Foods' financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to the Current Report on Form 8-K, dated November 3, 2009, and the financial statement schedule incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K for the year ended December 31, 2008 have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Cadbury as of and for the years ended December 31, 2008, 2007 and 2006, incorporated by reference in this prospectus supplement, and the effectiveness of Cadbury's internal control over financial reporting as at December 31, 2008 have been audited by Deloitte LLP, an independent registered public accounting firm, as stated in their reports which are incorporated by reference from Kraft Foods' Current Report on Form 8-K, filed with the SEC on February 3, 2010, (which reports (i) express an unqualified opinion and include an explanatory paragraph that the financial statements and the related notes have been retrospectively restated for the adoption of the revised IAS 1 Presentation of Financial Statements in 2009, the change in the composition of the Cadbury's reportable segments implemented in 2009 and the misclassification between cash and cash equivalents and short-term investments, as discussed in Note 1 to the consolidated financial statements, and (ii) express an unqualified opinion on the effectiveness of internal control over financial reporting). Such consolidated financial statements have been incorporated by reference in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

**VALIDITY OF THE NOTES**

The validity of the notes offered hereby will be passed upon for us by Gibson, Dunn & Crutcher LLP. Certain legal matters will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP. Certain matters involving the laws of Virginia will be passed upon for us by Hunton & Williams LLP, our Virginia counsel. Simpson Thacher & Bartlett LLP will rely on Hunton & Williams LLP as to matters of Virginia law.

**Table of Contents**

**PROSPECTUS**

**Kraft Foods Inc.**

**Debt Securities**

This prospectus contains a general description of the debt securities Kraft Foods Inc. may offer for sale from time to time in one or more offerings. We will describe the specific terms of the debt securities that we offer, and the specific manner in which they may be offered, in one or more supplements to this prospectus at the time of each offering. We may sell the debt securities on a continuous or delayed basis directly to investors or through underwriters, dealers or agents, or through a combination of these methods. If any offering involves underwriters, dealers or agents, we will describe our arrangements with them in the prospectus supplement that relates to that offering. This prospectus may not be used to offer and sell the debt securities unless accompanied by a prospectus supplement. A prospectus supplement may add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement, as well as the documents incorporated and deemed to be incorporated by reference in this prospectus, carefully before you invest.

Our principal executive offices are located at Kraft Foods Inc., Three Lakes Drive, Northfield, Illinois 60093 and our telephone number is (847) 646-2000.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**Investing in our securities involves risk. See Risk Factors beginning on page 2 of this prospectus.**

The date of this prospectus is December 4, 2007.

**Table of Contents**

**TABLE OF CONTENTS**

<u>ABOUT THIS PROSPECTUS</u>	1
<u>ABOUT THE COMPANY</u>	1
<u>RISK FACTORS</u>	2
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	2
<u>INCORPORATION BY REFERENCE</u>	2
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	3
<u>USE OF PROCEEDS</u>	3
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	4
<u>DESCRIPTION OF DEBT SECURITIES</u>	4
<u>PLAN OF DISTRIBUTION</u>	16
<u>EXPERTS</u>	16
<u>LEGAL MATTERS</u>	16

**You should rely only on the information contained or incorporated by reference in this prospectus and in any accompanying prospectus supplement or in any related free writing prospectus. We have not authorized any other person to provide you with different information with respect to this offering. This document may only be used where it is legal to sell these securities. You should only assume that the information in this prospectus or in any prospectus supplement is accurate as of the date on the front of those documents. Our business, financial condition, results of operations and prospects may have changed since that date. We are not making an offer of these securities in any state where the offer is not permitted.**

**Table of Contents**

**ABOUT THIS PROSPECTUS**

This prospectus is part of an automatic shelf registration statement that we filed with the Securities and Exchange Commission, or SEC, as a well-known seasoned issuer as defined in Rule 405 under the Securities Act of 1933, as amended. By using an automatic shelf registration statement, we may, at any time and from time to time, sell debt securities under this prospectus in one or more offerings in an unlimited amount. As allowed by the SEC rules, this prospectus does not contain all of the information included in the registration statement. For further information, we refer to the registration statement, including its exhibits. Statements contained in this prospectus about the provisions or contents of any agreement or other document are not necessarily complete. If the SEC's rules and regulations require that an agreement or document be filed as an exhibit to the registration statement, please see that agreement or document for a complete description of these matters.

This prospectus provides you with a general description of the debt securities we may offer. Each time we use this prospectus to offer debt securities, we will provide you with a prospectus supplement that will describe the specific amounts, prices and terms of the securities being offered. The prospectus supplement may also add, update or change information contained in this prospectus. Therefore, if there is any inconsistency between the information in this prospectus and the prospectus supplement, you should rely on the information in the prospectus supplement.

To understand the terms of our debt securities, you should carefully read this document and the applicable prospectus supplement. Together they give the specific terms of the debt securities we are offering. You should also read the documents we have referred you to under "Where You Can Find More Information" below for information on our company and our financial statements. The registration statement and exhibits can be read at the SEC's website or at the SEC as described under "Where You Can Find More Information."

References in this prospectus to Kraft, the Company, we, us and our refer to Kraft Foods Inc. and its subsidiaries.

References herein to \$ and dollars are to United States dollars, and financial data included or incorporated by reference herein have been presented in accordance with accounting principles generally accepted in the United States of America.

**ABOUT THE COMPANY**

Kraft was incorporated in 2000 in the Commonwealth of Virginia. Prior to June 13, 2001, Kraft was a wholly-owned subsidiary of Altria Group, Inc. (Altria). On June 13, 2001, Kraft completed an initial public offering of its common shares. At December 31, 2006, Altria owned 89.0% of the outstanding shares of Kraft's capital stock. In the first quarter of 2007, Altria spun off its entire interest in Kraft on a pro rata basis to Altria stockholders in a tax-free transaction. Effective as of the close of business on March 30, 2007, all shares of Kraft owned by Altria were distributed to Altria's stockholders of record as of the close of business on March 16, 2007, and Kraft's separation from Altria was completed. Accordingly, Kraft is now a fully independent publicly-traded company.

Our corporate headquarters are located at Kraft Foods Inc., Three Lakes Drive, Northfield, Illinois 60093, our telephone number is (847) 646-2000 and our website is [www.kraft.com](http://www.kraft.com). The information contained in, or that can be accessed through, our website is not a part of this prospectus.

## **Table of Contents**

### **RISK FACTORS**

Our business is subject to uncertainties and risks. You should carefully consider and evaluate all of the information included and incorporated by reference in this prospectus, including the risk factors incorporated by reference from our most recent annual report on Form 10-K, as updated by our quarterly reports on Form 10-Q and other SEC filings filed after such annual report. It is possible that our business, financial condition, liquidity or results of operations could be materially adversely affected by any of these risks.

### **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports, proxy statements and other information with the SEC. In addition, we have filed a registration statement and related exhibits with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov) or at our website at [www.kraft.com](http://www.kraft.com) (as noted above, the information contained in, or that can be accessed through, our website is not a part of this prospectus). You may also read and copy any document we file with the SEC at its public reference room at 100 F Street, N.E., Washington, D.C. 20549. In addition, you can inspect reports and other information we file at the office of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

You may also obtain copies of this information at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

Our SEC filings are available at the office of the New York Stock Exchange. For further information on obtaining copies of our public filings at the New York Stock Exchange, you should call (212) 656-3000.

### **INCORPORATION BY REFERENCE**

The SEC allows us to incorporate by reference into this prospectus information which we file with the SEC. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede any inconsistent information in this prospectus and in our other filings with the SEC.

We incorporate by reference the following documents that we previously filed with the SEC (other than information in such documents that is deemed not to be filed):

our annual report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 1, 2007 (file no. 001-16483);

our quarterly report on Form 10-Q for the quarter ended March 31, 2007, filed with the SEC on May 9, 2007 (file no. 001-16483);

our quarterly report on Form 10-Q for the quarter ended June 30, 2007, filed with the SEC on August 3, 2007 (file no. 001-16483);

our quarterly report on Form 10-Q for the quarter ended September 30, 2007, filed with the SEC on November 2, 2007 (file no. 001-16483); and

our current reports on Form 8-K filed with the SEC on January 8, 2007, January 23, 2007, January 29, 2007, January 31, 2007 (except information furnished under Item 2.02), February 1, 2007, February 5, 2007, February 20, 2007 (except the information furnished under Item 7.01), March 6, 2007, March 30, 2007, April 5, 2007, April 23, 2007, April 30, 2007, May 9, 2007, May 31, 2007, July 6, 2007, August 13, 2007, August 14, 2007, September 4, 2007, September 12, 2007, November 7, 2007, November 15, 2007 and November 20, 2007 and on Form 8-K/A filed with the SEC on November 20, 2007 (file no. 001-16483).





## **Table of Contents**

These documents contain important information about our business and our financial performance.

We also incorporate by reference any future filings we make with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, on or after the date of the filing of the registration statement and prior to the termination of the offering. Our future filings with the SEC will automatically update and supersede any inconsistent information in this prospectus.

You may obtain a free copy of these filings from us by telephoning or writing to us at the following address and telephone number:

Kraft Foods Inc.

Three Lakes Drive

Northfield, IL 60093

Attention: Office of the Corporate Secretary

Telephone: (847) 646-2000

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Some of the information included in this prospectus and the documents we have incorporated by reference contain forward-looking statements. You can identify these forward-looking statements by use of words such as strategy, expects, plans, anticipates, believes, will, continues, estimates, intends, projects, goals, targets and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. We cannot guarantee that any forward-looking statement will be realized, although we believe that we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties, and the possibility of inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated, or projected. Investors should bear this in mind as they consider forward-looking statements and whether to invest in or remain invested in our securities. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we identify from time to time important factors that could cause actual results and outcomes to differ materially from those contained in any forward-looking statement made by us or on our behalf. These factors include the ones discussed under Risk Factors in our filings with the SEC incorporated by reference. It is not possible to predict or identify all risk factors. Any forward-looking statements are made as of the date of the document in which they appear. We do not undertake to update any forward-looking statement that we may make from time to time.

## **USE OF PROCEEDS**

Unless we otherwise state in the applicable prospectus supplement, we will use the net proceeds from the sale of the offered securities for general corporate purposes. General corporate purposes may include repayment of debt, additions to working capital, capital expenditures, investments in our subsidiaries, possible acquisitions and the repurchase, redemption or retirement of securities, including our common shares. The net proceeds may be temporarily invested or applied to repay short-term or revolving debt prior to use.

**Table of Contents****RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our historical ratios of earnings to fixed charges for the periods indicated. This information should be read in conjunction with the consolidated financial statements and the accompanying notes incorporated by reference in this prospectus.

	<b>Nine Months Ended September 30, 2007</b>	<b>Years Ended December 31,</b>				
		<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Ratios of earnings to fixed charges	6.0x	6.4x	6.1x	5.8x	7.2x	6.1x

Earnings available for fixed charges represent earnings before income taxes, minority interest and cumulative effect of an accounting change and fixed charges excluding capitalized interest, net of amortization, reduced by undistributed earnings of our less than 50% owned affiliates. Fixed charges represent interest expense, amortization of debt discount and expenses, capitalized interest, plus that portion of rental expense deemed to be the equivalent of interest.

**DESCRIPTION OF DEBT SECURITIES**

The debt securities covered by this prospectus will be our direct unsecured obligations. The debt securities will be issued in one or more series under an indenture dated as of October 17, 2001 between us and The Bank of New York (as successor to The Chase Manhattan Bank), as trustee.

This prospectus briefly describes the material indenture provisions. Those descriptions are qualified in all respects by reference to the actual text of the indenture. For your reference, in the summary that follows, we have included references to section numbers of the indenture so that you can more easily locate these provisions.

The material financial, legal and other terms particular to debt securities of each series will be described in the prospectus supplement relating to the debt securities of that series. The prospectus supplement relating to the debt securities of the series will be attached to the front of this prospectus. The following briefly summarizes the material provisions of the indenture and the debt securities, other than pricing and related terms disclosed in the accompanying prospectus supplement. The prospectus supplement will also state whether any of the terms summarized below do not apply to the series of debt securities being offered. You should read the more detailed provisions of the indenture, including the defined terms, for provisions that may be important to you. You should also read the particular terms of a series of debt securities, which will be described in more detail in the applicable prospectus supplement.

Prospective purchasers of debt securities should be aware that special United States federal income tax, accounting and other considerations not addressed in this prospectus may be applicable to instruments such as the debt securities. The prospectus supplement relating to an issue of debt securities will describe these considerations, if they apply.

Capitalized terms used below are defined under [Defined Terms](#).

**General**

The debt securities will rank equally with all of our other unsecured and unsubordinated debt. The indenture does not limit the amount of debt we may issue under the indenture and provides that additional debt securities may be issued up to the aggregate principal amount authorized by a board resolution. We may issue the debt securities from time to time in one or more series with the same or various maturities, at par, at a discount or at a premium. The

**Table of Contents**

prospectus supplement relating to any debt securities being offered will include specific terms relating to the offering, including the particular amount, price and other terms of those debt securities. These terms will include some or all of the following:

the title of the debt securities;

any limit upon the aggregate principal amount of the debt securities;

the date or dates on which the principal of the debt securities will be payable or their manner of determination;

if the securities will bear interest:

the interest rate or rates;

the date or dates from which any interest will accrue;

the interest payment dates for the debt securities; and

the regular record date for any interest payable on any interest payment date;

or, in each case, their method of determination;

the place or places where the principal of, and any premium and interest on, the debt securities will be payable;

currency or units of two or more currencies in which the debt securities will be denominated and payable, if other than U.S. dollars, and the holders' rights, if any, to elect payment in a foreign currency or a foreign currency unit other than that in which the debt securities are payable;

whether the amounts of payments of principal of, and any premium and interest on, the debt securities are to be determined with reference to an index, formula or other method, and if so, the manner in which such amounts will be determined;

whether the debt securities will be issued in whole or in part in the form of global securities and, if so, the depositary and the global exchange agent for the global securities, whether permanent or temporary;

whether the debt securities will be issued as registered securities, bearer securities or both, and any restrictions on the exchange of one form of debt securities for another and on the offer, sale and delivery of the debt securities in either form;

## Edgar Filing: KRAFT FOODS INC - Form 424B2

if the debt securities are issuable in definitive form upon the satisfaction of certain conditions, the form and terms of such conditions;

if denominations other than \$1,000 or any integral multiple of \$1,000, the denominations in which the debt securities will be issued;

the period or periods within which, the price or prices at which and the terms on which any of the debt securities may be redeemed, in whole or in part at our option, and any remarketing arrangements;

the terms on which we would be required to redeem, repay or purchase debt securities required by any sinking fund, mandatory redemption or similar provision; and the period or periods within which, the price or prices at which and the terms and conditions on which the debt securities will be so redeemed, repaid and purchased in whole or in part;

the portion of the principal amount of the debt securities that is payable on the declaration of acceleration of the maturity, if other than their principal amount; these debt securities could include original issue discount, or OID, debt securities or indexed debt securities, which are each described below;

**Table of Contents**

any special tax implications of the debt securities, including whether and under what circumstances, if any, we will pay additional amounts under any debt securities held by a person who is not a United States person for tax payments, assessments or other governmental charges and whether we have the option to redeem the debt securities which are affected by the additional amounts instead of paying the additional amounts;

any addition to or modification or deletion of any provisions for the satisfaction and discharge of our obligations under the indenture and specific series of debt securities;

whether and to what extent the debt securities are subject to defeasance on terms different from those described under the heading Defeasance ;

any trustees, paying agents, transfer agents, registrars, depositaries or similar agents with respect to the debt securities;

if the debt securities bear no interest, any dates on which lists of holders of these debt securities must be provided to the trustee;

any addition to, or modification or deletion of, any event of default or any covenant specified in the indenture; and

any other specific terms of the debt securities.

(Section 301)

We may issue debt securities as original issue discount, or OID, debt securities. OID debt securities bear no interest or bear interest at below-market rates and are sold at a discount below their stated principal amount. If we issue OID debt securities, the prospectus supplement will contain the issue price of the securities and the rate at which and the date from which discount will accrete.

We may also issue indexed debt securities. Payments of principal of, and any premium and interest on, indexed debt securities are determined with reference to the rate of exchange between the currency or currency unit in which the debt security is denominated and any other currency or currency unit specified by us, to the relationship between two or more currencies or currency units, to the price of one or more specified securities or commodities, to one or more securities or commodities exchange indices or other indices or by other similar methods or formulas, all as specified in the prospectus supplement.

We may issue debt securities other than the debt securities described in this prospectus. There is no requirement that any other debt securities that we issue be issued under the indenture. Thus, any other debt securities that we issue may be issued under other indentures or documentation containing provisions different from those included in the indenture or applicable to one or more issues of the debt securities described in this prospectus. (Section 301)

**Consolidation, Merger or Sale**

We have agreed not to consolidate with or merge into any other corporation or convey or transfer or lease substantially all of our properties and assets to any person, unless:

we are a continuing corporation or any successor purchaser is an entity organized under the laws of the United States or any state of the United States;

## Edgar Filing: KRAFT FOODS INC - Form 424B2

the successor corporation expressly assumes by a supplemental indenture the due and punctual payment of the principal of, and any premium and interest on, all the debt securities and the performance of every covenant in the indenture that we would otherwise have to perform as if it were an original party to the indenture;

## **Table of Contents**

immediately after the effective date of the transaction, no event of default has occurred and is continuing under the indenture; and

we deliver to the trustee an officers' certificate and an opinion of counsel, each stating that the consolidation, merger, conveyance or transfer and the supplemental indenture comply with these provisions.

The successor corporation will assume all our obligations under the indenture as if it were an original party to the indenture. After assuming such obligations, the successor corporation will have all our rights and powers under the indenture.

(Section 801)

## **Waivers Under the Indenture**

Under the indenture, the holders of a majority in aggregate principal amount of the outstanding debt securities of any series, may on behalf of all holders of that series:

waive our compliance with certain covenants of the indenture; and

(Section 1009)

waive any past default under the indenture, except:

a default in the payment of the principal of, or any premium or interest on, any debt securities of the series; and

a default under any provision of the indenture which itself cannot be modified without the consent of the holders of each affected debt security of the series.

(Section 513)

## **Events of Default**

When we use the term "Event of Default" in the indenture with respect to a particular series of debt securities, we mean any of the following:

we fail to pay interest on any debt security of that series for 30 days after payment was due;

we fail to make payment of the principal of, or any premium on, any debt security of that series when due;

we fail to make any sinking fund payment when due with respect to debt securities of that series;

we fail to perform any other covenant or warranty in the indenture and this failure continues for 90 days after we receive written notice of it from the trustee or holders of 25% in principal amount of the outstanding debt securities of that series;

we or a court take certain actions relating to bankruptcy, insolvency or reorganization of our company; or



any other event of default that may be specified for the debt securities of the series or in the board resolution with respect to the debt securities of that series.

(Section 501)

The supplemental indenture or the form of security for a particular series of debt securities may include additional Events of Default or changes to the Events of Default described above. The Events of Default applicable to a particular series of debt securities will be discussed in the prospectus supplement relating to such series.

## **Table of Contents**

A default with respect to a single series of debt securities under the indenture will not necessarily constitute a default with respect to any other series of debt securities issued under the indenture. A default under our other indebtedness will not be a default under the indenture. The trustee may withhold notice to the holders of debt securities of any default, except for defaults that involve our failure to pay principal or interest, if it determines in good faith that the withholding of notice is in the interest of the holders. (Section 602)

If an Event of Default for any series of debt securities occurs and continues (other than an Event of Default involving our bankruptcy, insolvency or reorganization), either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of the affected series may require us upon notice in writing to us, to immediately repay the entire principal (or, in the case of (a) OID debt securities, a lesser amount as provided in those OID debt securities or (b) indexed debt securities, an amount determined by the terms of those indexed debt securities), of all the debt securities of such series together with accrued interest on the debt securities.

If an Event of Default occurs which involves our bankruptcy, insolvency or reorganization, then all unpaid principal amounts (or, if the debt securities are (a) OID debt securities, then the portion of the principal amount that is specified in those OID debt securities or (b) indexed debt securities, then the portion of the principal amount that is determined by the terms of those indexed debt securities) and accrued interest on all debt securities of each series will immediately become due and payable, without any action by the trustee or any holder of debt securities. (Section 502)

Subject to certain conditions, the holders of a majority in principal amount of the outstanding debt securities of a series may rescind a declaration of acceleration if all Events of Default, besides the failure to pay principal or interest due solely because of the declaration of acceleration, have been cured or waived. (Section 502)

Other than its duties in case of a default, the trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders, unless the holders offer the trustee reasonable indemnity. The holders of a majority in principal amount outstanding of any series of debt securities may, subject to certain limitations, direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any power conferred upon the trustee, for any series of debt securities.

The indenture requires us to file each year with the trustee, an officer's certificate that states that:

the signing officer has supervised a review of the activities and performance under the indenture; and

to the best of his or her knowledge, based on the review, we comply with all conditions and covenants of the indenture. (Section 1005)

A judgment for money damages by courts in the United States, including a money judgment based on an obligation expressed in a foreign currency, will ordinarily be rendered only in U.S. dollars. New York statutory law provides that a court shall render a judgment or decree in the foreign currency of the underlying obligation and that the judgment or decree shall be converted into U.S. dollars at the exchange rate prevailing on the date of entry of the judgment or decree. If a court requires a conversion to be made on a date other than a judgment date, the indenture requires us to pay additional amounts necessary to ensure that the amount paid in U.S. dollars to a holder is equal to the amount due in such foreign currency. (Section 516)

---

**Table of Contents**

**Payment and Transfer**

We will pay the principal of, and any premium and interest on, fully registered securities at the place or places that we will designate for such purposes. We will make payment to the persons in whose names the debt securities are registered on the close of business on the day or days that we will specify in accordance with the indenture. We will pay the principal of, and any premium on, registered debt securities only against surrender of those debt securities. Any other payments, including payment on any securities issued in bearer form, will be made as set forth in the applicable prospectus supplement. Holders may transfer or exchange fully registered securities at the corporate trust office of the trustee or at any other office or agency, maintained for such purposes, without the payment of any service charge except for any tax or governmental charge. (Section 305)

**Restrictive Covenants**

The indenture includes the following restrictive covenants:

*Limitations on Liens*

The indenture limits the amount of liens that we or our Subsidiaries may incur or otherwise create in order to secure indebtedness for borrowed money, upon any Principal Facility or any shares of capital stock that any of our Subsidiaries owning any Principal Facility has issued to us or any of our Subsidiaries. If we or any of our Subsidiaries incur such liens, then we will secure the debt securities to the same extent and in the same proportion as the debt that is secured by such liens. This covenant does not apply, however, to any of the following:

in the case of a Principal Facility, liens incurred in connection with the issuance by a state or its political subdivision of any securities the interest on which is exempt from United States federal income taxes by virtue of Section 103 of the Internal Revenue Code or any other laws and regulations in effect at the time of such issuance;

liens existing on the date of the indenture;

liens on property or shares of stock existing at the time we or any of our Subsidiaries acquire such property or shares of stock, including through a merger, share exchange or consolidation, or securing the payment of all or part of the purchase price, construction or improvement of such property incurred prior to, during, or within 180 days after the later of the acquisition, completion of construction or improvement or commencement of full operation of such property or within 180 days after the acquisition of such shares for the purpose of financing all or a portion of such purchase of the property or construction or improvement on it; or

liens for the sole purpose of extending, renewing or replacing all or a part of the indebtedness secured by any lien referred to in the previous bullet points or in this bullet point if the extension, removal and replacement is limited to all or a part of the property secured by the original lien.

Notwithstanding the foregoing, we and/or any of our Subsidiaries may incur liens that would otherwise be subject to the restriction described above, without securing debt securities issued under the indenture equally and ratably, if the aggregate value of all outstanding indebtedness secured by the liens and the value of Sale and Leaseback Transactions does not at the time exceed the greater of:

10% of our Consolidated Net Tangible Assets; or

10% of our Consolidated Capitalization.

## **Table of Contents**

At September 30, 2007, our Consolidated Net Tangible Assets were \$11.4 billion and our Consolidated Capitalization was \$43.3 billion.

(Section 1007)

### *Sale and Leaseback Transactions*

A Sale and Leaseback Transaction of any Principal Facility is prohibited, unless within 180 days of the effective date of the arrangement, an amount equal to the greater of the proceeds of the sale or the fair value of the property ( value ) is applied to the retirement of long-term non-subordinated indebtedness for money borrowed with more than one year stated maturity, including our debt securities, except that such sales and leasebacks are permitted to the extent that the value thereof plus the other secured debt referred to in the previous paragraph does not exceed the amount stated in the previous paragraph. (Section 1008)

There are no other restrictive covenants in the indenture. The indenture does not require us to maintain any financial ratios, minimum levels of net worth or liquidity or restrict the payment of dividends, the making of other distributions on our capital stock or the redemption or purchase of our capital stock. Moreover, the indenture does not contain any provision requiring us to repurchase or redeem any debt securities or debt warrants or modify the terms thereof or afford the holders thereof any other protection in the event of our change of control, any highly leveraged transaction or any other event involving us that may materially adversely affect our creditworthiness or the value of the debt securities or debt warrants.

### **Defined Terms**

We define Subsidiaries as any corporation of which at least a majority of all outstanding stock having ordinary voting power in the election of directors of such corporation is at the time, directly or indirectly, owned by us or by one or more Subsidiaries or by us and one or more Subsidiaries. (Section 101)

We define Principal Facility as all real property owned and operated by us or any Subsidiary located within the United States and constituting part of any manufacturing plant or distribution facility, including all attached plumbing, electrical, ventilating, heating, cooling, lighting and other utility systems, ducts and pipes but excluding trade fixtures (unless their removal would cause substantial damage to the manufacturing plant or distribution facility), business machinery, equipment, motorized vehicles, tools, supplies and materials, security systems, cameras, inventory and other personal property and materials. However, no manufacturing plant or distribution facility will be a Principal Facility unless its net book value exceeds 0.25% of Consolidated Capitalization. (Section 1007)

We define a Sale and Leaseback Transaction as the sale or transfer of a Principal Facility with the intention of taking back a lease of the property, except a lease for a temporary period of less than 3 years, including renewals, with the intent that the use by us or any Subsidiary will be discontinued on or before the expiration of such period. (Section 1008)

We define Consolidated Net Tangible Assets as the excess of all assets over current liabilities appearing on our most recent quarterly or annual consolidated balance sheet, less goodwill and other intangible assets and the minority interests of others in Subsidiaries. (Section 101)

We define Consolidated Capitalization as the total of all of the assets appearing on our most recent quarterly or annual consolidated balance sheet, less:

current liabilities, including liabilities for indebtedness maturing more than 12 months from the date of the original creation thereof, but maturing within 12 months from the date of our most recent quarterly or annual consolidated balance sheet; and

## **Table of Contents**

deferred income tax liabilities reflected in such consolidated balance sheet.  
(Section 101)

### **Global Securities**

We may issue the securities in whole or in part in the form of one or more global securities that will be deposited with, or on behalf of, a depositary identified in the applicable prospectus supplement.

We may issue the global securities in either registered or bearer form and in either temporary or permanent form. We will describe the specific terms of the depositary arrangement with respect to a series of securities in the applicable prospectus supplement. We anticipate that the following provisions will apply to all depositary arrangements.

Once a global security is issued, the depositary will credit on its book-entry system the respective principal amounts of the individual securities represented by that global security to the accounts of institutions that have accounts with the depositary. These institutions are known as participants.

The underwriters for the securities will designate the accounts to be credited. However, if we have offered or sold the securities either directly or through agents, we or the agents will designate the appropriate accounts to be credited.

Ownership of beneficial interests in a global security will be limited to participants or persons that may hold beneficial interests through participants. Ownership of beneficial interests in a global security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the depositary for participants or persons that may hold through participants. The laws of some states require that certain purchasers of securities take physical delivery of securities. Those laws may limit the market for beneficial interests in a global security.

So long as the depositary for a global security, or its nominee, is the registered owner of a global security, the depositary or nominee will be considered the sole owner or holder of the securities represented by the global security for all purposes under the indenture. Except as provided in the applicable prospectus supplement, owners of beneficial interests in a global security:

will not be entitled to have securities represented by global securities registered in their names;

will not receive or be entitled to receive physical delivery of securities in definitive form; and

will not be considered owners or holders of these securities under the indenture.

Payments of principal of, and any premium and interest on, the individual securities registered in the name of the depositary or its nominee will be made to the depositary or its nominee as the registered owner of that global security.

Neither we nor the trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests of a global security, or for maintaining, supervising or reviewing any records relating to beneficial ownership interests and each of us and the trustee may act or refrain from acting without liability on any information provided by the depositary.

We expect that the depositary, after receiving any payment of principal of, and any premium and interest on, a global security, will immediately credit the accounts of the participants with payments in amounts proportionate to their respective holdings in principal

## **Table of Contents**

amount of beneficial interest in a global security as shown on the records of the depository. We also expect that payments by participants to owners of beneficial interests in a global security will be governed by standing customer instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participants.

Debt securities represented by a global security will be exchangeable for debt securities in definitive form of like tenor in authorized denominations only if:

the depository notifies us that it is unwilling or unable to continue as the depository and a successor depository is not appointed by us within 90 days;

we deliver to the trustee for securities of such series in registered form a company order stating that the securities of such series shall be exchangeable; or

an Event of Default has occurred and is continuing with respect to securities of such series.

Unless and until a global security is exchanged in whole or in part for debt securities in definitive certificated form, it may not be transferred or exchanged except as a whole by the depository.

You may transfer or exchange certificated securities at any office that we maintain for this purpose in accordance with the terms of the indenture. We will not charge a service fee for any transfer or exchange of certificated securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge that we are required to pay in connection with a transfer or exchange.

(Section 305)

## **Registration of Transfer**

You may effect the transfer of certificated securities and the right to receive the principal of, and any premium and interest on, certificated securities only by surrendering the certificate representing those certificated securities and either reissuance by us or the trustee of the certificate to the new holder or the issuance by us or the trustee of a new certificate to the new holder.

We are not required to:

issue, register, transfer or exchange securities of any series during a period beginning at the opening of business 15 days before the day we transmit a notice of redemption of the securities of the series selected for redemption and ending at the close of business on the day of the transmission;

register, transfer or exchange any security so selected for redemption in whole or in part, except the unredeemed portion of any security being redeemed in part; or

exchange any bearer securities selected for redemption except if a bearer security is exchanged for a registered security of the same tenor that is simultaneously surrendered for redemption.

(Section 305)

## **Exchange**

## Edgar Filing: KRAFT FOODS INC - Form 424B2

At your option, you may exchange your registered debt securities of any series, except a global security, for an equal principal amount of other registered debt securities of the same series having authorized denominations upon surrender to our designated agent.

## **Table of Contents**

We may at any time exchange debt securities issued as one or more global securities for an equal principal amount of debt securities of the same series in definitive registered form. In this case, we will deliver to the holders new debt securities in definitive registered form in the same aggregate principal amount as the global securities being exchanged.

The depository of the global securities may also decide at any time to surrender one or more global securities in exchange for debt securities of the same series in definitive registered form, in which case we will deliver the new debt securities in definitive form to the persons specified by the depository, in an aggregate principal amount equal to, and in exchange for, each person's beneficial interest in the global securities.

Notwithstanding the above, we will not be required to exchange any debt securities if, as a result of the exchange, we would suffer adverse consequences under any United States law or regulation.

(Section 305)

## **Defeasance**

Unless otherwise specified in the prospectus supplement, we can terminate all of our obligations under the indenture with respect to the debt securities, other than the obligation to pay the principal of, and any premium and interest on, the debt securities and certain other obligations, at any time by:

depositing money or United States government obligations with the trustee in an amount sufficient to pay the principal of, and any premium and interest on, the debt securities to their maturity; and

complying with certain other conditions, including delivery to the trustee of an opinion of counsel to the effect that holders of debt securities will not recognize income, gain or loss for United States federal income tax purposes as a result of our defeasance.

In addition, unless otherwise specified in the prospectus supplement, we can terminate all of our obligations under the indenture with respect to the debt securities, with minor exceptions, including the obligation to pay the principal of, and any premium and interest on, the debt securities, at any time by:

depositing money or United States government obligations with the trustee in an amount sufficient to pay the principal of, and the interest and any premium on, the debt securities to their maturity; and

complying with certain other conditions, including delivery to the trustee of an opinion of counsel stating that there has been a ruling by the Internal Revenue Service, or a change in the United States federal tax law since the date of the indenture, to the effect that holders of debt securities will not recognize income, gain or loss for United States federal income tax purposes as a result of our defeasance.

(Sections 402-404)

## **Payments of Unclaimed Moneys**

Moneys deposited with the trustee or any paying agent for the payment of principal of, or any premium and interest on, any debt securities that remain unclaimed for two years will be repaid to us at our request, unless the law requires otherwise. If this happens and you want to claim these moneys, you must look to us and not to the trustee or paying agent. (Section 409)



## **Table of Contents**

### **Supplemental Indentures Not Requiring Consent of Holders**

Without the consent of any holders of debt securities, we and the trustee may supplement the indenture, among other things, to:

pledge property to the trustee as security for the debt securities;

reflect that another entity has succeeded us and assumed the covenants and obligations of us under the debt securities and the indenture;

cure any ambiguity or inconsistency in the indenture or in the debt securities or make any other provisions necessary or desirable, as long as the interests of the holders of the debt securities are not adversely affected in any material respect;

issue and establish the form and terms of any series of debt securities as provided in the indenture;

add to our covenants further covenants for the benefit of the holders of debt securities, and if the covenants are for the benefit of less than all series of debt securities, stating which series are entitled to benefit;

add any additional event of default and if the new event of default applies to fewer than all series of debt securities, stating to which series it applies;

change the trustee or provide for an additional trustee;

provide additional provisions for bearer debt securities so long as the action does not adversely affect the interests of holders of any debt securities in any material respect; or

modify the indenture in order to continue its qualification under the Trustee Indenture Act of 1939 or as may be necessary or desirable in accordance with amendments to that Act.

(Section 901)

### **Supplemental Indentures Requiring Consent of Holders**

With the consent of the holders of a majority in principal amount of each series of the debt securities that would be affected by a modification of the indenture, the indenture permits us and the trustee to supplement the indenture or modify in any way the terms of the indenture or the rights of the holders of the debt securities of such series. However, without the consent of each holder of all of the debt securities affected by that modification, we and the trustee may not:

modify the maturity date of, or reduce the principal of, or premium on, or change the stated final maturity of, any debt security;

reduce the rate of or change the time for payment of interest on any debt security or, in the case of OID debt securities, reduce the rate of accretion of the OID;

change any of our obligations to pay additional amounts under the indenture;

reduce or alter the method of computation of any amount payable upon redemption, repayment or purchase of any debt security by us, or the time when the redemption, repayment or purchase may be made;

make the principal or interest on any debt security payable in a currency other than that stated in the debt security or change the place of payment;

reduce the amount of principal due on an OID debt security upon acceleration of maturity or provable in bankruptcy or reduce the amount payable under the terms of an indexed debt security upon acceleration of maturity or provable in bankruptcy;

## **Table of Contents**

impair any right of repayment or purchase at the option of any holder of debt securities;

reduce the right of any holder of debt securities to receive or sue for payment of the principal or interest on a debt security that would be due and payable at the maturity thereof or upon redemption; or

reduce the percentage in principal amount of the outstanding debt securities of any series required to supplement the indenture or to waive any of its provisions.

(Section 902)

A supplemental indenture that modifies or eliminates a provision intended to benefit the holders of one series of debt securities will not affect the rights under the indenture of holders of other series of debt securities.

## **Redemption**

The specific terms of any redemption of a series of debt securities will be contained in the prospectus supplement for that series. Generally, we must send notice of redemption to the holders at least 30 days but not more than 60 days prior to the redemption date. The notice will specify:

the principal amount being redeemed;

the redemption date;

the redemption price;

the place or places of payment;

the CUSIP number of the debt securities being redeemed;

whether the redemption is pursuant to a sinking fund;

that on the redemption date, interest, or, in the case of OID debt securities, original issue discount, will cease to accrue; and

if bearer debt securities are being redeemed, that those bearer debt securities must be accompanied by all coupons maturing after the redemption date or the amount of the missing coupons will be deducted from the redemption price, or indemnity must be furnished, and whether those bearer debt securities may be exchanged for registered debt securities not being redeemed.

(Section 1104)

On or before any redemption date, we will deposit an amount of money with the trustee or with a paying agent sufficient to pay the redemption price. (Section 1105)

If less than all the debt securities are being redeemed, the trustee shall select the debt securities to be redeemed using a method it considers fair. (Section 1103) After the redemption date, holders of debt securities which were redeemed will have no rights with respect to the debt securities except the right to receive the redemption price and any unpaid interest to the redemption date. (Section 1106)

**Concerning the Trustee**

The Bank of New York (as successor to The Chase Manhattan Bank) is the trustee under the indenture. The Bank of New York has performed and will perform other services for us and certain of our subsidiaries in the normal course of its business.

**Governing Law**

The laws of the State of New York govern the indenture and will govern the debt securities. (Section 112)

**Table of Contents**

**PLAN OF DISTRIBUTION**

We may sell the debt securities offered pursuant to this prospectus in any of the following ways:

directly to one or more purchasers;

through agents;

through underwriters, brokers or dealers; or

through a combination of any of these methods of sale.

We will identify the specific plan of distribution, including any underwriters, brokers, dealers, agents or direct purchasers and their compensation in a prospectus supplement.

**EXPERTS**

The consolidated financial statements, financial statement schedule and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2006 have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**LEGAL MATTERS**

The validity of the debt securities offered by this prospectus and any prospectus supplement will be passed upon for us by Sidley Austin LLP, Chicago, Illinois.

Table of Contents

**\$ % Notes due**

**\$ % Notes due**

**\$ % Notes due**

**\$ % Notes due**

**Kraft Foods Inc.**

*Joint Book-Running Managers*

**Barclays Capital**

**BBVA Securities**

**BNP PARIBAS**

**Citi**

**Credit Suisse**

**Deutsche Bank Securities**

**HSBC**

**RBS**

**SOCIETE GENERALE**