

PURSUING CADBURY (A)¹

Ken Mark wrote this case under the supervision of Professor Stewart Thornhill solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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INTRODUCTION

“Should we hold or sell our Kraft stock,” asked Keith Palmerston, managing director of PKG Capital. U.S.-based PKG Capital (PKG) was a private equity firm with a portfolio of consumer packaged-goods stocks. It had been investing in Kraft Foods (Kraft) since June 2001, when it purchased a substantial stake at \$31.00² per share. Palmerston was standing in PKG’s conference room on January 4, 2010. He continued:

A month ago, Kraft delivered an offer to purchase Cadbury plc for \$16.8 billion. But the Cadbury board has rejected the offer and Kraft is contemplating a response. What are the implications of Kraft’s future actions on our investment stake?

In August 2009, Kraft’s chairman and chief executive officer (CEO) Irene B. Rosenfeld met with her counterpart at Cadbury to present her offer (see Exhibit 1). “We’ve been monitoring the situation and Kraft’s stock price has fallen since the deal was announced on September 7, 2009. What worries me is that, initially, Kraft seemed intent on acquiring Cadbury in a friendly way,” Palmerston said. He continued:

But on September 8, 2009, the bid turned hostile. In addition, Warren Buffett, one of Kraft’s largest shareholders, has said, on the record, that the offer “is a full price” and that Kraft would “have to do a lot of things right to justify this price.”³ Ultimately, from a value creation standpoint, does the Cadbury acquisition make sense for Kraft?

¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Cadbury plc, Kraft or any of their employees.

² All dollar amounts in U.S. funds unless otherwise specified.

³ Bill Freehling, “Warren Buffett says Kraft’s Cadbury offer a ‘full price,’” *Examiner*, September 16, 2009, www.examiner.com/warren-buffett-in-national/warren-buffett-says-kraft-s-cadbury-offer-a-full-price, accessed March 1, 2012.

THE GLOBAL CONFECTIONERY MARKET

In 2008, the global confectionery market was worth \$135 billion at retail prices, representing 13.2 billion kilograms of food products. The market had been growing by an annual rate of three per cent for the previous five years. Confectionery products included chocolate, chewing gum, packaged sugar treats and cereal bars: with 48.6 per cent of sales, chocolate accounted for nearly half of the market category; sugar confectionery accounted for 34.6 per cent; chewing gum's share was 12.5 per cent; cereal bars accounted for the remainder of the market⁴ (see Exhibits 2 and 3).

The chocolate category included branded chocolate blocks and bars sold by weight and item count. They were made with sugar and cocoa, along with secondary ingredients such as nuts and added flavors. Popular brands of chocolate bars included Mars, KitKat and Cadbury. Sugar treats were confectionery items made primarily from sugar (see Exhibit 4). Popular brands of sugar treats included Lifesavers, Mentos and Skittles. Chewing gum was made from chicle, a natural latex, and sugar. Leading gum brands included Trident, Dubble Bubble and Wrigley's. The smallest category in global confectionery was cereal bars, made from cereals, grains, chocolates and sugar bonded together into a candy bar shape. Market leading cereal bar brands included Nutri-Grain and Special K.

RAW MATERIALS

On average, a chocolate bar was 38 per cent cocoa solids, 43 per cent sugar, 13 per cent milk and the remaining ingredients were fillings and flavorings. In a sugar treat the percentage of sugar was much higher, being close to 70 per cent of the product. Cocoa beans were harvested by hand from cocoa seed pods, split open and left to ferment in the sun for five to eight days, dried and then refined into chocolate liquor through winnowing⁵ and roasting. The cocoa beans were warehoused by wholesalers and awaited delivery to buyers. Manufacturers purchased this chocolate liquor and combined it with sugar and/or milk to add flavor to the confection.⁶ About 3.5 million tons of cocoa beans were harvested each year: the largest production occurred in countries in Africa, Asia and South America.⁷

Sugar was primarily derived from sugar cane, the world's largest crop. Sugar beets accounted for 20 per cent of sugar production. About 154 million tons of sugar were produced each year: a third of global production occurred in Asia, 29 per cent in South America and 14 per cent in Europe.⁸ Cocoa and sugar production was sold on international markets; the spot prices fluctuated depending on demand and supply for each commodity (see Exhibit 5).

A Rabobank analyst estimated that the average material costs to sales ratio (otherwise known as the cost of goods sold) for confectionery manufacturers was about 35 per cent for "international leaders," 53 per cent for "local leaders," 65 per cent for "private label specialists" and 40 per cent for "premium players."⁹

⁴ "Confectionery: Global Industry Almanac," *Datamonitor*, December 2010, pp. 69-70.

⁵ Winnowing removes the shells of the beans and leaves the centre of the bean to be processed.

⁶ "The production of chocolate," *The World Atlas of Chocolate*, www.sfu.ca/geog351fall03/groups-webpages/gp8/prod/prod.html, accessed March 1, 2012

⁷ "Cocoa Market Update," *World Cocoa Foundation*, May 2010, www.worldcocoafoundation.org/learn-about-cocoa/documents/CocoaMarketUpdateasof5.18.10.pdf, accessed March 1, 2012.

⁸ "Food Outlook — Global Market Analysis: Sugar," *Food and Agriculture Organization of the United Nations*, December 2009, www.fao.org/docrep/012/ak341e/ak341e08.htm, accessed March 1, 2012.

⁹ "The chocolate confectionary market today: consumer trends and outlook," *Rabobank Food & Agribusiness Research and Advisory*, 2010, p. 16, www.worldcocoafoundation.org/who-we-are/partnership-meetings/documents/Rabobank_MCastroviejo_chocolatereformatted_5.10.10.pdf, accessed March 1, 2012.

MANUFACTURERS

The top three manufacturers — Mars, Inc., Cadbury plc and Nestle S.A. — had a combined 36 per cent of the global confectionery market. Retailers' growing power was one of the key reasons why manufacturers had started to merge with or acquire rivals. In April 2008, one of the largest confectionery mergers, Mars' merger with Wrigley, was realized after negotiations that started before the financial crisis. The enormous amount of debt that Mars had taken on — provided by Berkshire Hathaway, Goldman Sachs and JPMorgan — was thought to be a strain on the combined entity, as sales continued to suffer after the merger. Nevertheless, the creation of this new top player sparked speculation of mergers between the other players in the industry such as Cadbury and Hershey.

Manufacturers purchased commodities on the global market, striking a balance between maintaining inventories and hedging prices. Factories were generally located close to major markets in order to minimize transportation costs. In order to profit from selling chocolate or candy bars, factory utilization had to be kept high. There were ways for new entrants to enter the market without having to earmark capital to set up large production facilities. For example, a new brand could have been launched by entrepreneurs relying more heavily on the manual production of items.¹⁰

A Rabobank analyst estimated that the average earnings before interest and taxes (EBIT) margins for confectionery manufacturers was around 12 per cent for “international leaders,” 7 per cent for “local leaders,” two per cent for “private label specialists” and 5 per cent for “premium players.”¹¹

RETAILERS

All global food retailers sold confectionery items, and the largest food retailers in the world tended to operate in multiple markets. In 2009, the top global retailers generated an increasing amount of sales from foreign markets. For example, Wal-Mart Stores, Inc., with \$401 billion in sales, had stores in 14 countries; Carrefour S.A. (\$112 billion in sales) had stores in 34 countries; Tesco plc (\$86 billion in sales) had stores in 13 countries.¹²

On average, retailers earned a 30 per cent gross margin on confectionery times, compared to the grocery store average of 27 per cent.¹³ An analysis of the world confectionery market by the National Confectioners Association, a U.S.-based industry group found that retailers were anticipating a series of developments from 2008 to 2013, including consolidation amongst retailers, an increase in customized retailer-specific promotions and packaging, growth in the premium segment of organic and healthier options and improved logistics to ensure faster “speed to shelf.”¹⁴

Seeking cost savings, retailers began driving harder bargains with manufacturers, winning trade spending concessions (fees paid by manufacturers to support retailers' promotional efforts) from the larger packaged-goods firms and threatening to de-list underperforming or sub-scale vendors. While the previous few years had seen a proliferation of choices at retail shelves for consumers eager to spend, after the financial crisis retailers were actively cutting back on the number of vendors. Additionally, in an attempt

¹⁰ “Global Confectionery Industry Profile,” *Datamonitor*, October 2009, p. 19.

¹¹ “The chocolate confectionary market today: consumer trends and outlook,” *Rabobank Food & Agribusiness Research and Advisory*, 2010, p. 16, www.worldcocoaoundation.org/who-we-are/partnership-meetings/documents/Rabobank_MCastroviejo_chocolatereformatted_5.10.10.pdf, accessed March 1, 2012.

¹² “Feeling the squeeze: Global Powers of Retailing 2009,” *Deloitte*, 2009, http://public.deloitte.com/media/0460/2009GlobalPowersofRetail_FINAL2.pdf, accessed March 1, 2012.

¹³ “World and U.S. Confectionery Market,” *National Confectioners' Logistics Council, Inc.*, June 9, 2008, p. 70.

¹⁴ *Ibid*, p. 64.

to earn higher margins, retailers were developing and launching private labels that competed directly with the national brands. See Exhibit 6 for a list of the top retailers by region.

CONSUMERS

Confectionery products were purchased by consumers as snacks or treats, with demand driven by brand advertising and appealing packaging. On average, consumers purchased confectionery 22 times per year, ranking the category third overall behind carbonated beverages (31 times) and milk (30 times), and above cereal (16 times), bottled juice (15 times), cookies (12 times), soup (11 times) and coffee (7 times).¹⁵

Innovation by manufacturers played a key role in driving sales, with thousands of new confectionery brands or variants launched each year. In 2009, there were several key consumer trends in the category, including portion control, fortified products and corporate social responsibility.

In response to consumer demands for healthier products, manufacturers introduced variants with lower sugar and fat contents and smaller portion sizes. For example, new brand variants were launched in smaller, 100-calorie sizes (down from 250 calories or higher). Manufacturers were also looking to use new advertising claims about chocolate's antioxidant benefits to drive sales. Consumers were becoming more interested in products' origins, prompting manufacturers to ensure that their raw materials were sourced ethically. For example, in March 2009, Cadbury announced that it had achieved Fair Trade Certification for its Cadbury Dairy Milk chocolate bar.¹⁶

In 2010, consumers in developed countries in North America and Europe were feeling the effects of an economic downturn brought on by the global financial crisis. Stock prices had collapsed to lows not seen, in some cases, for a decade. While consumer spending on products in general was down, many believed that sales of affordable luxuries such as confectionery products would continue to be resilient.

KRAFT FOODS

In 1903, James L. Kraft, a Canadian, started a Chicago-based company selling cheese directly to consumers. It expanded rapidly in the United States and, by 1930, had 41 per cent of the U.S. market for cheese. Following a series of mergers and acquisitions, Kraft operated in a wide variety of segments including packaged cheese, sauces, batteries, Tupperware, appliances and glassware. In 1988, Kraft was acquired by Philip Morris for \$12.9 billion. Philip Morris merged Kraft with its General Foods division, which owned brands such as Maxwell House, Jell-O, Oscar Mayer and Kool-Aid. The diversification continued with the acquisition of Jacobs Suchard, a coffee and confectionery firm, in 1990, and the purchase of Nabisco's breakfast cereals division in 1993. In 2000, Nabisco itself was acquired and merged with Kraft.

In 2001, Philip Morris took Kraft public, selling just over 20 per cent of its stake in what was the third-largest initial public offering of all time. Kraft's expansion through acquisitions ended and the firm started to focus on key categories. In an effort to boost its stock price, Kraft divested its sugar confectionery, hot cereals, pet snacks, juice drinks and other grocery brands from 2004 to 2007. Mid-way through this effort, in June 2006, Rosenfeld was brought into Kraft as CEO to continue the turnaround effort. About six

¹⁵ "World and U.S. Confectionery Market," *National Confectioners' Logistics Council, Inc.*, June 9, 2008, p. 71.

¹⁶ "Cadbury Announces Fair Trade Certification of Cadbury Dairy Milk," *Canada Newswire*, March 4, 2009, www.newswire.ca/en/story/488949/cadbury-announces-fair-trade-certification-tm-of-cadbury-r-dairy-milk-r, accessed March 1, 2012.

months later, Philip Morris (now known as Altria) announced that it would spin off the rest of Kraft to its shareholders, turning Kraft into an independent, publicly traded firm: “The Kraft spin-off was valued at approximately \$46.1 billion based on the closing price on March 30, 2007, for Kraft of \$31.66 per share and 1,455,000,000 Kraft shares distributed by Altria.”¹⁷

From 2006 to 2009, Rosenfeld’s changes at Kraft centered around four “building blocks”: rewiring for growth, reframing categories, exploiting sales capabilities and balancing cost and quality. She replaced six of her nine direct reports and revamped the Kraft board of directors to include more independent members. The organization’s matrix structure was replaced with independent business units, each of which had control over its own profit and loss targets and balance sheets. Research in innovation was focused around the four themes of “health and wellness,” “snacking,” “premium” and “quick meals.” As part of this refocus, unprofitable product lines were eliminated.

Kraft updated its trade strategy to ensure that its products were prominently featured on retailers’ shelves. It engaged its retailer customers by sharing consumer insights and conducting joint trade promotions. The company looked outside traditional grocery stores, expanding its distribution to other channels such as dollar stores and military depots. A comprehensive restructuring program was put in place: 36 plants were closed and the workforce was reduced by 19,000 jobs.

At the start of her change effort in 2006, Rosenfeld predicted that the firm would be “hitting its stride” by 2009. However, rapid increases in the price of raw materials and the onset of the global recession placed pressure on Kraft’s operating margins, which fell from 21 per cent in 2002, to 12.3 per cent in 2008. Rosenfeld stated that there was unfinished business with regard to getting the company back on a path of growth and slowing share losses to private-labeled products. In March 2009, Kraft’s stock price hit a low of \$22.29, down from \$43.10 in May 2002. On September 1, 2009, Kraft’s stock closed at \$26.27 (see Exhibits 7 and 8).

CADBURY

From its beginnings as a shop selling chocolate drinks in Birmingham in 1824, Cadbury had grown into a global enterprise selling confections such as chocolate bars, sugar candies and chewing gum (see Exhibit 9). It produced well-known chocolate bar brands such as Dairy Milk, Fruit and Nut and Whole Nut, and had been the market leader in the U.K. market since the 1930s. After the end of the two World Wars, Cadbury expanded rapidly, building new factories around the world to produce chocolates.

In 1969, Cadbury merged with Schweppes, a drinks company, to form Cadbury Schweppes. In 2002, the firm purchased chewing gum leader Adams Brands. The drinks side of the business went on an acquisition spree, adding drinks brands such as Sunkist, Canada Dry, Snapple and Royal Crown. In 2007, Cadbury Schweppes made a decision to split its business into a confectionery business (Cadbury) and a drinks business (Schweppes).

In June 2007, the Cadbury team put in place a multi-year strategy to boost margins back to the mid-teens. Called Vision Into Action (VIA), this team focused on three priorities: growth, focusing on fewer items and working with key grocery customers such as Wal-Mart, Carrefour, Metro, Tesco, Costco and 7 Eleven. As part of VIA, several factories were closed and 7,500 jobs were eliminated.¹⁸ From 2007 to 2009,

¹⁷ “Spin-off Terms & Key Dates FAQs,” *Altria*, http://investor.altria.com/phoenix.zhtml?c=80855&p=irol-faq_kraft_tkd, accessed March 1, 2012.

¹⁸ Paul Waldie, “Why Kraft wants Cadbury’s Secrets,” *The Globe and Mail*, September 8, 2009, www.theglobeandmail.com/globe-investor/why-kraft-wants-cadburys-secrets/article1279793/, accessed March 1, 2012.

Cadbury's performance declined as a result of the economic crises around the world. Margins started to fall even as Cadbury embarked on price increases to account for rising commodity costs.

At the end of 2008, it achieved EBIT margins of 11.9 per cent, far below its estimates of 14 to 16 per cent at the start of the year. Cadbury had also earned \$532 million in net income on sales of \$7.9 billion. Despite its sub-par performance, Cadbury continued to be one of the world's largest confectionery companies. It had strong businesses and was second only to Mars/Wrigley in the number of market leading positions in the world's top 50 confectionery markets (see Exhibit 10). In February 2009, despite achieving lower margins than it had anticipated, Todd Stitzer, Cadbury's CEO, suggested that the company's improvement strategy was on track:

I am delighted to report today that 2008 was a record year for Cadbury's continuing confectionery businesses. We delivered a strong financial performance, with revenue growth of 7 per cent, and an underlying margin improvement of 150 basis points. The separation of our somewhat lower margin Australian beverage business, and the benefit of currency movements bring our reported margins to 11.9 per cent. As a result, our reported earnings per share were up 30 per cent, or 16 per cent at constant currency. While delivering this strong performance, we also made significant progress toward becoming a pure-play total confectionery business. In May, we completed the de-merger of our U.S. beverage business. More recently, we announced a conditional agreement to sell our Australian beverages business to Asahi for GBP550m. Finally, to underpin our commitment to deliver our goal of mid-teens margins by 2011, we took the significant step of simplifying our business model by removing the regional layer of our management in the fourth quarter.¹⁹

On September 1, 2009, Cadbury's stock closed at GBP5.77 (see Exhibit 11).

COMPETITORS IN GLOBAL CONFECTIONERY

Mars

Headquartered in Virginia, Mars produced and distributed products in four core business segments: snack foods, pet care, main meal food and drinks. Its snack food range consisted primarily of confectionery brands such as M&Ms, the Mars bar, Skittles, Twix and Kudos. Founded in 1911, Mars was a private company with 70,000 employees and had revenue of \$22 billion in 2008. The firm moved beyond its traditional focus on confectionery when it acquired Doane Petcare Company in 2007, entering the dry pet food market. On April 28, 2008, Mars partnered with Warren Buffett's Berkshire Hathaway to acquire Wm. Wrigley Jr. Company, the largest gum producer in the world, for \$23 billion.

Hershey

In 1894, after selling his first company for the equivalent of \$28 million (according to a 2008 dollar conversion), Milton S. Hershey founded the Hershey Chocolate Company in Pennsylvania. In 2008, Hershey was the largest chocolate manufacturer in the United States with \$5.1 billion in sales. It employed

¹⁹ "CBY – Preliminary 2008 Cadbury plc Earnings Presentation," Thomson StreetEvents, February 25, accessed March 1, 2012.

13,000 people and manufactured popular brands such as the Hershey bar, Hershey's Kisses, Reese's Pieces and Twizzlers.

Ferrero

Founded by Pietro Ferrero in Piedmont, Italy in 1946, Ferrero SpA focused primarily on the global confectionery market with brands such as Nutella and Ferrero Rocher. It had €7 billion in revenues in 2008, and employed 20,000 people worldwide.

Nestle

Nestle was created in 1905, following the merger of the Anglo-Swiss Milk Company and Farine Lactee Henri Nestle. Beginning with condensed milk and infant formula products, Nestle expanded into products such as beverages, prepared dishes, cooking aids, pet care, confectionery and non-food items. In 2008, it was the world's largest food products firm with revenues of \$103 billion (see Exhibit 12), employing 281,000 people. Its confectionery brands included Aero, Kit Kat, Nestle Milk Chocolate, Rolo and Rowntree.

THE OFFER TO BUY CADBURY

As a result of Mars' acquisition of Wrigley in 2008, analysts were speculating about future transactions in the global confectionery space (see Exhibits 13 and 14). On July 6, 2009, Nomura analysts suggested that Kraft might be interested in purchasing Cadbury. That day, Cadbury's shares rose GBP0.095 to GBP5.33.²⁰ On August 28, 2009, Rosenfeld met with Roger Carr, Cadbury's chairman, and outlined Kraft's offer to purchase Cadbury for \$16.2 billion, with 60 per cent of the offer in Kraft stock and 40 per cent in cash.

"As we all know, Kraft seems determined to acquire Cadbury," said Palmerston as he addressed his analyst team on September 17, 2009. At the front of the room, Palmerston pointed to the screen, on which the text of Rosenfeld's initial letter to Cadbury's CEO, delivered on August 28, 2009, was projected. The first part of the letter hinted that the merger would create value for both shareholders (see first paragraph in Exhibit 1).

Despite the attractive premium over Cadbury's share price, Cadbury's board unequivocally rejected the offer. Undaunted, Kraft continued with its hostile bid to acquire the firm. Just two and a half years earlier, Kraft had avoided a hostile takeover of Groupe Danone's LU biscuit and cereal division by promising to keep French factories open and to keep the division's headquarters in Paris for three years.²¹ During an analyst call, Rosenfeld outlined her rationale for Cadbury as a takeover target:

The possible combination of Kraft Foods and Cadbury would build on our position as a global power house in snacks, confectionery and quick meals. Four priorities have shaped our strong term strategy. First, as we focused on growth categories we have transformed

²⁰ Ben Harrington, "Nomura tips Kraft to merge with Cadbury," *The Telegraph*, July 6, 2009, www.telegraph.co.uk/finance/markets/marketreport/5761163/Nomura-tips-Kraft-to-merge-with-Cadbury.html, accessed March 1, 2012.

²¹ "No ketchup, please," *The Economist*, July 5, 2007, www.economist.com/node/9443091?story_id=9443091, accessed April 12, 2012.

Kraft Foods into the world's leading snacks and quick meals company. We've exited slow growth and lower margin businesses. And we've reinvigorated our high flow cash businesses to further fund growth opportunities. Second, as we expanded our footprint in developing markets, we are capitalizing on population growth. This creates further opportunities over the long term, as consumers trade up to more of our products. And this also provides scale to efficiently invest in infrastructure in key geographies.

Third, as we expand our presence in growing trade channels, we are also well positioned. Instant consumption channels like convenience stores continue to gain share versus traditional channels in the United States and European Union. These channels provide consumers with increased access to significant parts of our portfolio. They are highly incremental to our base business, and typically deliver higher margins. And finally, on a stand-alone basis, we are targeting industry leading margins. As I've already mentioned, we've made great strides in improving our portfolio mix, and we have significantly reduced our cost while enhancing product quality.

On a combined basis, Kraft Foods and Cadbury would be a global leader across all major segments, chocolate, gum, and sugar confectionery. More important, our combined sales would be heavily weighted toward the higher growth chocolate and gum segments. Our combined company would have leading market shares in the confectionery category in many countries. This is important, important because we believe scale would be an increasing source of competitive advantage in both the confectionery category and the food industry at large. And being a global leader in both confectionery and biscuits would not only provide our combined businesses with significant scale, but also with tremendous innovation opportunity. In addition, the combined company would offer a diversified portfolio of leading confectionery brands.

These would include key global brands such as Milka, Cadbury, Trident and Halls. As well as more than 40 brands with revenues over \$100 million, brands that are icons in their respective markets. In terms of our focus on developing markets, Cadbury has a broad geographic reach, reach that is highly complimentary to Kraft's and would lead to increased scale in key developing markets for both companies. From a Kraft perspective, Cadbury would give us a meaningful entry into India and it would fundamentally transform our business in Mexico. For Cadbury, Kraft would strengthen its presence in Brazil, Russia and China.²²

Kraft stated that it would reap \$625 million in cost synergies from the merger.²³ On September 7, 2009, the day that the bid was announced, Cadbury's shares leapt to GBP7.83. An analyst at Evolution Securities, a London-based firm, estimated that there was a 40 per cent chance that Nestle and Hershey would collaborate on a bid for Cadbury. If that occurred, Cadbury would likely be split up, with Nestle taking the gum business and Hershey getting the chocolate business. On September 8, 2009, Nestle officials stated that they were "open to acquisition opportunities."²⁴ On September 17, 2009, Rosenfeld followed up with a second letter to Carr, urging Cadbury's board to consider the proposal (see Exhibit 15).

²² "KFT – Kraft Foods and Cadbury plc Proposed Offer Conference Call (US) Transcript," *Thomson StreetEvents*, September 8, 2009, accessed March 1, 2012.

²³ Pablo Zuanic, "Cadbury Plc," *J.P. Morgan*, September 18, 2009, p. 2.

²⁴ Paul Waldie, "Why Kraft wants Cadbury's secrets," *The Globe and Mail*, September 8, 2009, www.theglobeandmail.com/globe-investor/why-kraft-wants-cadburys-secrets/article1279793/, accessed March 1, 2012.

On November 9, 2009, Cadbury's board responded with Carr stating that "Kraft's unattractive offer does not come remotely close to reflecting the true value of our company, and involves the unattractive prospect of the absorption of Cadbury into a low growth conglomerate business model."²⁵ On November 19, 2009, Hershey and Ferrero confirmed, separately, that they were interested in purchasing Cadbury.

Palmerston looked at the information that his team had gathered. He glanced at a recent analyst report, which suggested that in 2010, Cadbury would reach sales, net profit and shareholders' equity of GBP6,288 million, GBP446 million and GBP3,396 million, respectively.²⁶ Having a significant stake in Kraft, he wanted to be sure that a careful analysis was completed before determining what impact the potential acquisition would have on Kraft's share price. It was 4:30 p.m. on January 4, 2010, and Palmerston noted that Kraft's stock price had closed at \$27.66. That same day, Cadbury's stock closed at GBP8.05. Palmerston concluded: "The likelihood that Kraft will come back with a revised offer is quite high. The question is what this offer could be and how might it match up against what Cadbury is worth?"

²⁵ Simon Kennedy, "Cadbury rejects 'derisory' Kraft offer," *MarketWatch*, November 9, 2009, http://articles.marketwatch.com/2009-11-09/news/30823532_1_cadbury-chairman-roger-carr-derisory-low-growth-conglomerate-business, accessed March 1, 2012.

²⁶ Pablo Zuanic, "Cadbury Plc," *J.P. Morgan*, September 18, 2009, p. 48.

Exhibit 1
ROSENFELD LETTER

28 August 2009

Mr. R. Carr
Cadbury PLC
Cadbury House
Sanderson Road
Uxbridge
UB8 1DH

Dear Roger,

I very much enjoyed meeting you this morning. As I explained, we believe that the combination of our companies would provide a compelling value proposition for both our shareholders. As analysts and industry observers have long speculated, our two great companies are highly complementary and a combination makes a great deal of strategic and financial sense. We believe that now is the time to pursue a transaction as a result of the significant opportunities available to both of us. We look forward to engaging in constructive, friendly discussions and working toward a positive outcome on a recommended basis.

We have great respect and admiration for Cadbury plc ("Cadbury"), its employees, its leadership and its proud heritage. We have also taken note of your recent performance and the successful ongoing implementation of your Vision Into Action program. However, we believe that Cadbury's prospects, ability to fully realize operational efficiencies and capacity to invest are necessarily constrained given its limited scale and scope relative to larger global competitors. We see few catalysts for sustained future value creation for Cadbury as a standalone entity. In contrast, we have concluded that we can strengthen both our companies by bringing them together, enhancing our worldwide scale and scope, and capitalizing on significant opportunities to build a global leader in the food and snacking industry for the benefit of all of our respective stakeholders. In so doing, we are eager to build upon the success of your iconic brands and strong British heritage through increased investment and innovation.

Accordingly, I am writing to set out the details of a possible offer to combine Cadbury and Kraft Foods Inc. ("Kraft Foods") (a "Possible Offer"), as approved by the Board of Directors of Kraft Foods. Subject to the pre-conditions set out below, Kraft Foods is prepared to offer 300 pence in cash and 0.2589 new Kraft Foods shares per Cadbury share, which values each Cadbury share at 755 pence (based on yesterday's closing price of \$28.42 for a Kraft Foods share and an exchange rate of 1.617 \$/pounds Sterling). This price represents an attractive premium to any measure of the standalone value of Cadbury and fully reflects your recent performance and prospects. Specifically, this price represents a premium of:

- 44% over Cadbury's share price of 524 pence on 3 July 2009, prior to recent analyst suggestions regarding potential sector consolidation;
- 37% over Cadbury's 90-day average share price of 553 pence in the period up to 27 August 2009, the last business day preceding this letter; and
- 31% over Cadbury's share price of 578 pence at close yesterday.

We would also point out that this price is beyond any price at which Cadbury's shares have traded since the demerger.

The Possible Offer would provide your shareholders with both value certainty and the opportunity to enjoy the significant value upside in the combined entity's attractive growth prospects and considerable synergies. Kraft Foods would also offer a mix and match facility under which Cadbury shareholders could elect, subject to availability, to vary the proportions in which they would receive cash and new Kraft Foods shares.

Exhibit 1 (continued)

I believe that the strategic and financial rationale for this transaction is compelling. The transaction would create:

- a company with approximately \$50 billion in revenues, with leading shares in snacking and an exceptional portfolio of confectionery and biscuit brands around the world;
- a geographically diversified combined business, with leading positions and significant scale in key developing markets including India, Mexico, Brazil, China and Russia;
- a strong presence in instant consumption channels in both developed and developing markets, expanding the reach and margin potential of the combined business; and
- the potential for meaningful revenue synergies over time from investments in distribution, marketing and product development, as well as a significant opportunity to realize pre-tax cost savings of at least \$625 million annually through increased operational efficiencies(1).

Kraft Foods has a proven track record of successfully completing and integrating strategic combinations to build iconic brands and multi-national businesses, including the acquisitions of LU in 2007 and Nabisco in 2000.

A combination with Cadbury is consistent with Kraft Foods' stated strategic objective to build a high-performing global company by reframing our categories, capitalizing on our established sales capabilities and driving down costs without compromising our commitment to high quality. Over the past three years, we have successfully positioned Kraft Foods for sustainable, profitable growth. A combination with Cadbury would mark a logical next step in our transformation as we shape the company into a more global, higher-growth and higher-margin entity.

Together, we would draw on the collective strengths of our two organizations and create a stronger, more competitive global company for the benefit of all stakeholders. We believe that the growth prospects and global scope of the enlarged entity should lead to increased opportunities for talented employees and managers of both companies. In addition, we confirm that the existing contractual employment rights, including pension rights, of all employees of Cadbury would be fully safeguarded.

The consideration required for the Possible Offer would be provided from a combination of Kraft Foods' existing funds, new debt and the issuance of equity. Financing would be on the basis that Kraft Foods would maintain an investment-grade credit rating. The significant cash flow of the enlarged entity following a combination would allow for rapid debt paydown and the continued funding of growth initiatives.

We, together with our legal advisers, have undertaken an analysis in relation to anti-trust matters. The complementary nature of our two businesses means that any antitrust concerns will be few, and limited in scope: we are confident that any issues can be appropriately addressed within the envisaged implementation timeframe. In this regard, we would suggest that our respective legal advisers meet at your earliest convenience, in order for our advisers to explain their analysis, and for next steps to be identified.

We believe it is in all parties' interests to progress this transaction as swiftly as possible. Our senior management and advisers have already completed extensive analysis and due diligence based on publicly available information. Accordingly, our due diligence requirements are limited, confirmatory in nature and capable of being addressed within a compressed timeframe. Lazard is acting as our lead financial adviser. We have also retained Centerview Partners, Citigroup and Deutsche Bank as financial advisers. Our legal advisers are Clifford Chance; Cravath, Swaine & Moore; Gibson, Dunn & Crutcher; and Arnold & Porter.

It is Kraft Foods' preference to implement any offer by means of a scheme of arrangement but we reserve the right to change this to a general offer. Any offer, if made, would be subject to the terms and conditions usually attaching to a scheme of arrangement, or offer, involving a U.K. public company.

Exhibit 1 (continued)

The making of any offer would be subject to the following pre-conditions:

- satisfactory completion of a limited due diligence review by Kraft Foods, including access to Cadbury's internal plan and projections;
- Kraft Foods obtaining satisfactory financing; and
- a unanimous recommendation by the directors of Cadbury to vote in favor of the scheme, or if relevant, to accept the offer.

For the avoidance of doubt, this letter should not be construed in any regard as constituting an offer or evincing an intention to make an offer or inviting an offer or imposing an obligation to make an offer for Cadbury and any of its securities or otherwise giving rise to legal relations (save for the obligation to keep its terms confidential) and, in particular, does not constitute a firm intention to make an offer for the purposes of Rule 2.5 of The City Code on Takeovers and Mergers. This proposal is made on a strictly private and confidential basis. This letter shall be governed by and construed in accordance with English law.

We trust that our proposal makes clear our level of seriousness and enthusiasm for pursuing this opportunity. We are willing to commit substantial time and financial resources to do so. This matter has the highest priority for Kraft Foods and we are keen to have our advisers and executive team engage with yours so that we can progress this proposal in an expeditious manner.

Per our conversation, I look forward to hearing from you shortly.

Yours sincerely,

Irene B. Rosenfeld

Chairman & Chief Executive Officer

Source: "Letters From Kraft CEO Irene Rosenfeld to Cadbury Chairman Roger Carr," *The Wall Street Journal*, September 7, 2009, <http://online.wsj.com/article/SB125230602908289941.html>, accessed March 1, 2012.

Exhibit 2
MARKET SIZE: CHOCOLATES

	Chocolate Market Size (in \$MMs)	Population (in MMs)	GDP/Capita	Chocolate Consumed in \$ / person
United States	4,267	312	44,738	14
United Kingdom	1,859	61	46,019	30
Russia	1,771	141	9,123	13
Germany	1,294	82	40,399	16
France	1,128	62	42,104	18
Brazil	1,014	192	7,142	5
Japan	951	127	34,360	7
Italy	935	60	35,713	16
Canada	813	33	43,553	24
Australia	801	21	43,649	38
Poland	449	38	13,799	12
Turkey	415	74	8,846	6
Ukraine	395	46	3,920	9
Spain	391	44	35,331	9
Argentina	381	40	6,604	10
Switzerland	313	8	67,385	41
Mexico	295	109	9,539	3
China	241	1,337	2,604	0
Belgium	236	11	47,108	22
Indonesia	131	227	2,246	1
India	113	1,190	1,016	0

Note: All dollar amounts in U.S. dollars.

Source: Pablo E. Zuanic, "Cadbury plc," *J.P. Morgan Europe Equity Research*, June 17, 2009, p. 15.

Exhibit 3
MARKET SIZE: GUM

	Gum Market Size (in \$MMs)	% of Global Sales
USA	4267	19.0%
China	1859	8.3%
Japan	1771	7.9%
Brazil	1294	5.7%
Mexico	1128	5.0%
France	1014	4.5%
Russia	951	4.2%
Italy	935	4.2%
United Kingdom	813	3.6%
Germany	801	3.6%
Canada	449	2.0%
Argentina	415	1.8%
South Korea	395	1.8%
Spain	391	1.7%
Turkey	381	1.7%
Iran	313	1.4%
Poland	295	1.3%
Australia	241	1.1%
Netherlands	236	1.0%
India	131	0.6%
Indonesia	113	0.5%
Others	4316	19.2%
Total	22,509	100.0%

Source: Pablo E. Zuanic, "Cadbury plc," *J.P. Morgan Europe Equity Research*, June 17, 2009, p. 15.

Exhibit 4
SUGAR CANDY: MARKET SHARE BY FIRM

1 Mars / Wrigley	5.0%
2 Cadbury	7.5%
3 Nestle	2.7%
4 Kraft	0.2%
5 Hershey	2.6%
6 Ferrero	1.5%
7 Perfetti	6.4%
8 Lindt & Sprungli	0.0%
9 Lotte Group	0.6%
10 August Storck	2.5%

Source: Alexia Howard et al., "Global Food: Kraft and Cadbury – A Sweet Deal," *Euromonitor, BernsteinResearch*, February 11, 2010, p. 6

Exhibit 5
COMMODITY PRICES: COCOA, MILK AND SUGAR (2005 – 2009, IN US\$)

	Cocoa USD/mt	Milk USD/mt	Sugar USD/mt
Jan-05	1600	2200	260
Jan-06	1600	2050	270
Jan-07	1900	4000	500
Jan-08	2400	3500	450
Jan-09	2400	2000	370

Note: mt is metric tons.

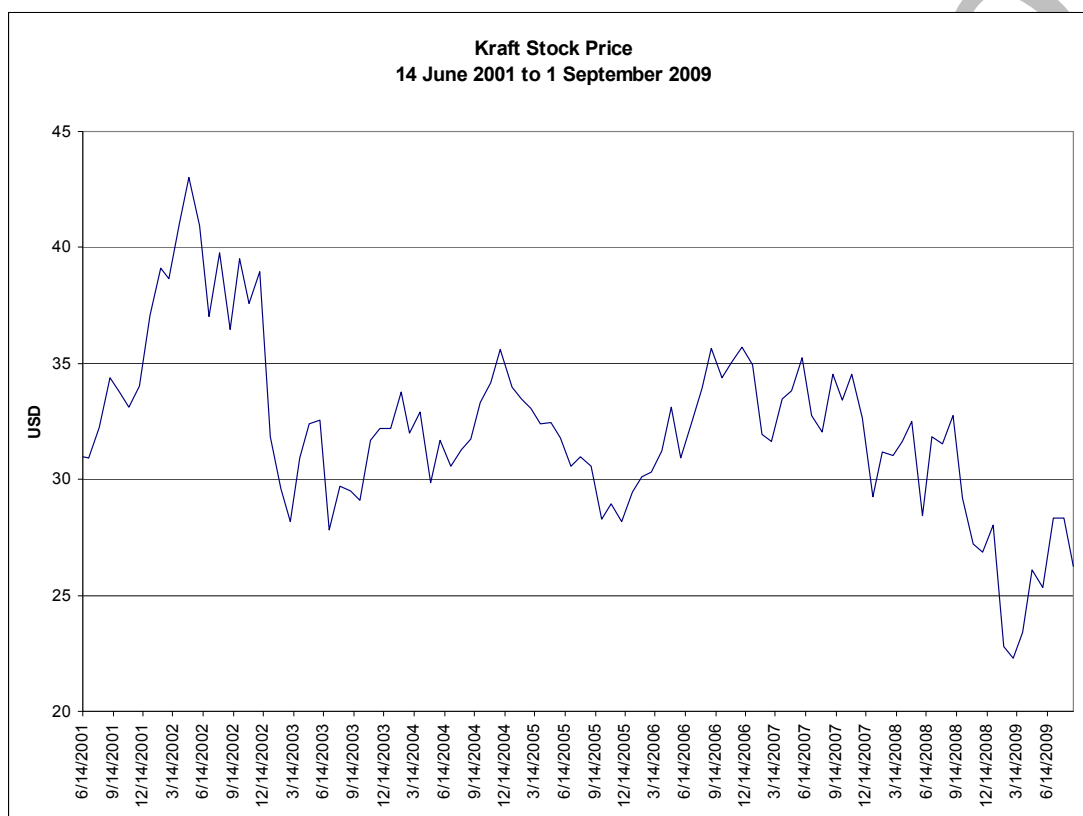
Source: Estimated from "The chocolate confectionary market today: consumer trends and outlook," *Rabobank Food & Agribusiness Research and Advisory*, 2010, p. 12, www.worldcocoafoundation.org/who-we-are/partnership-meetings/documents/Rabobank_MCastroviejo_chocolatereformatted_5.10.10.pdf, accessed March 1, 2012.

Exhibit 6 TOP 10 RETAILERS BY REGION, 2008

Region rank	Top 250 rank	Company	Retail sales (US\$ millions)	Country of origin
North America				
1	1	Wal-Mart	401244	U.S.
2	6	Kroger	76000	U.S.
3	7	Home Depot	71288	U.S.
4	8	Costco	70977	U.S.
5	10	Target	62884	U.S.
6	12	Walgreens	59034	U.S.
7	15	CVS Caremark	48990	U.S.
8	16	Lowe's	48230	U.S.
9	20	Sears Holding (including Kmart)	46770	U.S.
10	21	Best Buy	45015	U.S.
Europe				
1	2	Carrefour	127958	France
2	3	Metro	99004	Germany
3	4	Tesco	96210	U.K.
4	5	Schwarz	79924	Germany
5	9	Aldi	66063	Germany
6	11	Rewe	61549	Germany
7	13	Auchan	56831	France
8	18	E. Leclerc	47567	France
9	19	Edeka Zentrale	47389	Germany
10	22	ITM (Intermarche)	44085	France
Asia/Pacific				
1	14	Seven and i Holdings	54113	Japan
2	17	AEON	47978	Japan
3	26	Woolworths	36002	Australia
4	28	Wesfarmers	32716	Australia
5	43	Yamada Denki	18718	Japan
6	53	AS Watson	15217	Hong Kong SAR
7	63	Isetan Mitsukoshi Holdings	13723	Japan
8	77	UNY	11511	Japan
9	85	Shinsegae	10278	S. Korea
10	87	Daiei	10214	Japan
Latin America				
1	80	Cencosud	11226	Chile
2	92	Grupo Pao de Acucar	10047	Brazil
3	104	Soriana	8672	Mexico
4	131	Casa Bahia	6524	Brazil
5	134	Falabella	6410	Chile
6	168	Comercial Mexicana	4746	Mexico
7	190	FEMSA Comercio	4276	Mexico
8	200	Lojas Americanas	3886	Brazil
9	202	D&S	3849	Chile
10	218	El Puerto de Liverpool	3637	Mexico
Africa/Middle East				
1	130	Shoprite Holdings	6611	S. Africa
2	143	Pick 'N' Pay	5789	S. Africa
3	166	Massmart	4806	S. Africa
4	169	SPAR	4740	S. Africa
5	199	Migros	3942	Turkey
6	241	BIM	3296	Turkey

Source: "Emerging from the downturn: Global Powers of Retailing 2010," *Deloitte*, January 2010, p. 23, www.deloitte.com/assets/Dcom-Croatia/Local%20Assets/Documents/Documents-2009/hr_globalpowersofretailing2010.pdf, accessed March 1, 2012

Exhibit 7 KRAFT STOCK PRICE



Source: Yahoo Finance, accessed March 1, 2012

Exhibit 8 KRAFT BUSINESSES BY PRODUCT BY REGION

Kraft	Global	Asia Pacific	Oceania	Eastern Europe	Latin America	Middle East & Africa	North America	Western Europe
Confectionery	7,823	106	24	1,884	1,371	114	157	4,167
Chocolate	7,662	105	24	1,864	1,361	68	135	4,105
Sugar candy	145	2		19	10	30	22	62
Gum	17					17		
Bakery products	12,559	1,603	80	922	1,466	349	4,965	3,174
Dairy products	10,834	660	243	39	293	139	7,748	1,712
Chilled food	4,331				35		4,224	72
Ready meals	2,784		20		9		2,646	109
Condiments	2,769	50	72		141	9	2,161	336
Other grocery products	1,100							
Packaged food	42,201	2,420	439	2,844	3,315	612	21,901	9,570

Source: Pablo E. Zuanic, "Cadbury plc," J.P. Morgan Europe Equity Research, September 18, 2009, p. 30.

Exhibit 9
MARKET SHARE BY FIRM AND REGION

Chocolate: Market Share by Firm and Region

	World	Asia-Pacific	Australasia	Eastern Europe	Latin America	Middle East & Africa	North America	Western Europe
Mars	15	7	18	8	6	15	29	13
Nestle	12	12	19	16	21	13	6	13
Kraft	8	1	1	13	19	2	1	11
Hershey	8	1	NA	NA	5	0	31	NA
Cadbury	8	7	41	4	1	15	2	10
Ferrero	7	4	4	4	5	3	1	12
Lindt	4	1	3	0	0	2	4	6
OO	2	2	NA	9	NA	NA	NA	NA
Storck	1	0	NA	1	NA	0	0	2
Garoto	1	NA	NA	NA	12	NA	NA	NA
Ritter	1	NA	NA	1	NA	0	NA	2
As	1	0	NA	NA	NA	1	NA	NA
Lotte	1	8	NA	NA	NA	NA	NA	NA
Others	34	57	14	45	31	47	28	31
Total	100	100	100	100	100	100	100	100

Gum: Market Share by Firm and Region

	World	Asia-Pacific	Australasia	Eastern Europe	Latin America	Middle East & Africa	North America	Western Europe
Mars / Wrigley	36	25	96	77	3	23	50	37
Cadbury	29	9		15	64	38	32	25
Perfetti	7	4	1	2	1	1		21
Lotte	7	31				1		
Arcor	2				10			
Orion	1	4						
Leaf Intl	1	1						2
Hershey	1	2					3	
Others	16	24	3	6	22	37	15	15
Total	100	100	100	100	100	100	100	100

Source: Pablo E. Zuanic, "Cadbury plc," *J.P. Morgan Europe Equity Research*, June 17, 2009, p. 30.

Exhibit 10

MARKETS IN WHICH FIRM HAS MARKET LEADERSHIP

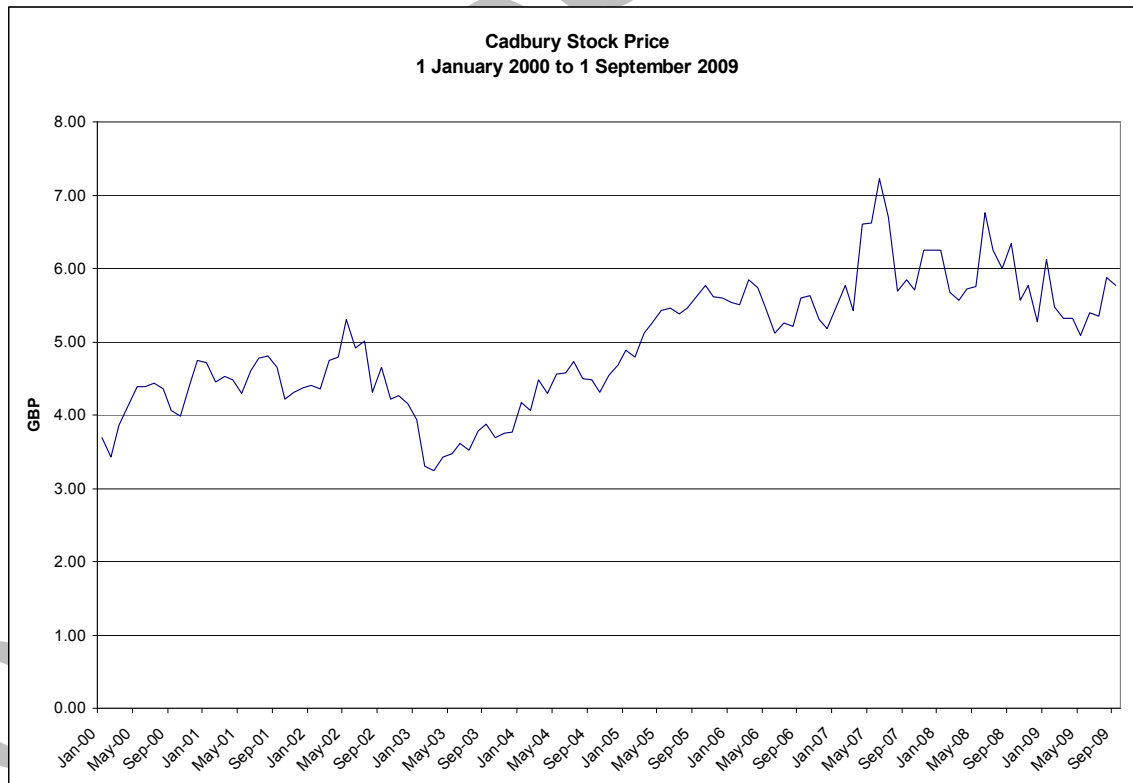
Number of #1 or #2 Positions in the World's Top 50 Confectionery Markets, 2008

	#1	#2	Total
1 Mars / Wrigley	9	18	27
2 Cadbury	14	7	21
3 Nestle	4	5	9
4 Kraft	5	2	7
5 Ferrero	3	2	5
6 Perfetti	1	3	4
7 Lotte	2	0	2
8 Hershey	0	1	1
9 Others	12	12	24
Total	50	50	

Source: Alexia Howard et al., "Global Food: Kraft and Cadbury – A Sweet Deal," *Euromonitor, BernsteinResearch*, February 11, 2010, p. 6.

Exhibit 11

CADBURY STOCK PRICE, JANUARY 2000 TO SEPTEMBER 2009 (BEFORE THE OFFER)



Source: *Yahoo Finance*, accessed March 1, 2012.

Exhibit 12

FINANCIALS (USD AND NATIVE CURRENCIES)

Income Statement	Cadbury Plc		Kraft		Hershey		Nestle	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Item	USD	USD	USD	USD	USD	USD	USD	USD
Revenues	9,643	7,871	40,386	42,201	5,299	5,133	104,499	102,978
Direct Costs	5,140	4,196	25,786	28,186	3,246	3,375	43,898	44,354
Gross Profit	4,503	3,675	14,600	14,015	1,209	1,758	60,601	58,624
Taxes	161	44	589	355	235	181	3,265	3,548
Net Income	407	532	3,028	2,901	436	311	11,451	17,850
EPS Net Diluted	0.30	0.39	2.05	1.97	1.90	1.36	3.07	4.79
Common shares - diluted	1,357	1,352	1477	1469	229	229	3,724	3,725
Balance Sheet	Cadbury Plc		Kraft		Hershey		Nestle	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Item	USD	USD	USD	USD	USD	USD	USD	USD
Cash & Equivalents	484	367	2,101	1,244	254	37	2,655	5,467
Accounts Receivable	1,727	1,558	5,197	4,704	410	455	11,952	12,594
Inventories	1,588	1,121	3,775	3,729	520	593	7,510	8,753
Current Assets	4,294	3,852	12,454	11,366	1,385	1,345	38,714	30,964
Net Property Plant & Equip	2,907	2,574	10,693	9,917	1,405	1,459	20,973	19,767
Total Assets	13,556	13,004	66,714	63,078	3,675	3,635	107,701	99,517
Accounts Payable	2,517	857	3,766	3,373	288	249	12,655	11,813
Current Liabilities	4,767	4,953	11,491	11,044	911	1,270	35,037	31,128
Long-term Debt	2,253	1,747	18,024	18,589	1,503	1,506	8,706	5,944
Total Liabilities	8,420	7,855	40,742	40,878	2,915	3,285	55,625	48,064
Total Equity	5,136	5,149	25,972	22,200	760	350	52,077	51,453
Total Liabilities and Equity	13,556	13,004	66,714	63,078	3,675	3,635	107,701	99,517

Native Currencies

Income Statement	Cadbury Plc		Kraft		Hershey		Nestle	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Item	GBP	GBP	USD	USD	USD	USD	CHF	CHF
Revenues	5,974	5,384	40,386	42,201	5,299	5,133	107,618	109,908
Direct Costs	3,185	2,870	25,786	28,186	3,246	3,375	45,208	47,339
Gross Profit	2,789	2,514	14,600	14,015	1,209	1,758	62,410	62,569
Taxes	100	30	589	355	235	181	3,362	3,787
Net Income	252	364	3,028	2,901	436	311	11,793	19,051
EPS Net Diluted	0.19	0.27	2.05	1.97	1.90	1.36	3.17	5.11
Common shares - diluted	1,357	1,352	1477	1469	229	229	3,724	3,725
Balance Sheet	Cadbury Plc		Kraft		Hershey		Nestle	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Item	GBP	GBP	USD	USD	USD	USD	CHF	CHF
Cash & Equivalents	300	251	2,101	1,244	254	37	2,734	5,835
Accounts Receivable	1,070	1,066	5,197	4,704	410	455	12,309	13,442
Inventories	984	767	3,775	3,729	520	593	7,734	9,342
Current Assets	2,660	2,635	12,454	11,366	1,385	1,345	39,870	33,048
Net Property Plant & Equip	1,801	1,761	10,693	9,917	1,405	1,459	21,599	21,097
Total Assets	8,398	8,895	66,714	63,078	3,675	3,635	110,916	106,215
Accounts Payable	1,559	586	3,766	3,373	288	249	13,033	12,608
Current Liabilities	2,953	3,388	11,491	11,044	911	1,270	36,083	33,223
Long-term Debt	1,396	1,195	18,024	18,589	1,503	1,506	8,966	6,344
Total Liabilities	5,216	5,373	40,742	40,878	2,915	3,285	57,285	51,299
Total Equity	3,182	3,522	25,972	22,200	760	350	53,631	54,916
Total Liabilities and Equity	8,398	8,895	66,714	63,078	3,675	3,635	110,916	106,215

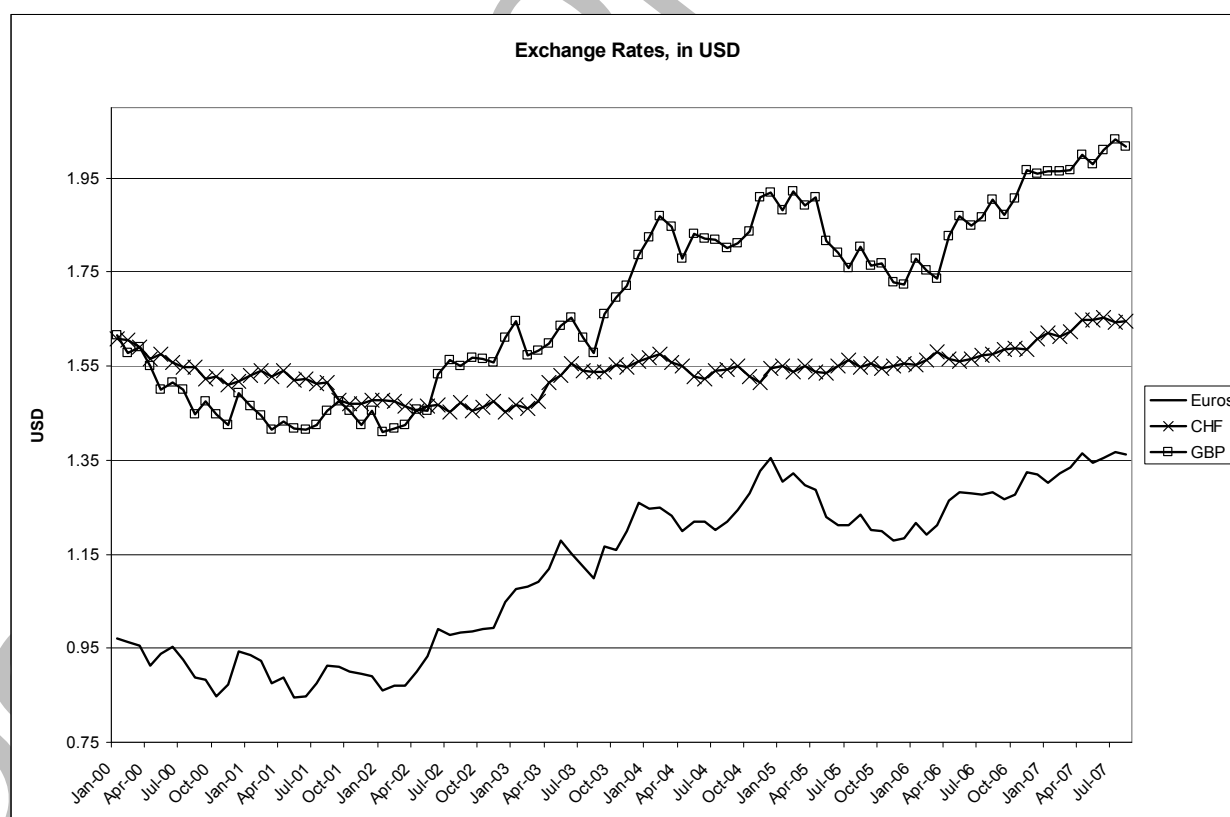
Source: Mergent, accessed 1 March 2012; Pablo E. Zuanic, "Cadbury Plc", JP Morgan Europe Equity Research, 8 September 2009, pages 14-15; <http://www.x-rates.com/cgi-bin/hlookup.cgi>; case writers' estimates.

Exhibit 13 COMPARABLE TRANSACTIONS

Acquirer	Acquired	Year	Price (\$Bn)	EV/EBITDA	Price/Sales
Unilever	Bestfoods	2000	24.2	14.3	2.9
Kraft	Nabisco	2000	18.9	14	2.3
Pepsico	Quaker Oats	2001	14	15.9	2.7
General Mills	Pillsbury	2001	10.5	na	2.5
Nestle	Ralston Purina	2001	11.2	15.7	3.9
Cadbury	Adams	2003	4.2	14.3	2.2
Nestle	Gerber	2007	5.5	15.7	2.8
Kraft	Danone Biscuits	2007	7.3	13.6	2.7
Danone	Numico	2007	18.4	23.1	5.1
Mars	Wrigley	2008	23	19.3	4.3
Average				16.2	3.1

Source: Alexia Howard et al., "Global Food: Kraft and Cadbury – A Sweet Deal," Euromonitor, BernsteinResearch, February 11, 2010, p. 15.

Exhibit 14 EXCHANGE RATES



Source: www.x-rates.com, accessed March 1, 2012

Exhibit 15

ROSENFELD LETTER, SEPTEMBER 7, 2009

7 September 2009
Mr. R. Carr
Cadbury PLC Cadbury House
Sanderson Road
Uxbridge
UB8 1DH

Dear Roger,

Thank you for your letter in response to our discussion on 28 August and the letter I sent to you as a follow-up outlining our possible offer (a "Possible Offer") for Cadbury plc ("Cadbury"). I have given careful consideration to your response.

Although I am disappointed that you rejected unequivocally our proposal, I remain committed to working toward a recommended offer and to maintaining a constructive dialogue. We are therefore disclosing publicly our Possible Offer as a means to encourage and further that process.

I continue to believe strongly in the strategic rationale for combining our two companies and that our Possible Offer represents an attractive premium and a compelling value proposition for your shareholders.

As I outlined during our meeting, I believe we can strengthen both of our companies by bringing them together, enhancing their worldwide scale and scope, and capitalizing on significant opportunities, building on the position of Kraft Foods Inc. ("Kraft Foods") as a global powerhouse in snacks, confectionery and quick meals for the benefit of all of our respective stakeholders.

We understand the great sense of pride that you and your team have for Cadbury and its brands. We also have a long history of respecting and building iconic brands like Oreo, LU, Milka, Toblerone, Kenco, Philadelphia and Dairylea to name just a few. Kraft Foods is committed to building upon Cadbury's success and strong British heritage through increased investment and innovation.

Our extensive combined global business network would create opportunities for talented Cadbury employees and managers across all areas of the combined enterprise. We would augment Kraft Foods' and Cadbury's world-class capabilities by employing a "best of both" focus, from sales and marketing to distribution and manufacturing. For example, we believe we would be in a position to continue to operate the Somerdale facility, which is currently planned to be closed, and invest in Bournville, thereby preserving U.K. manufacturing jobs.

I also want to reiterate that our Possible Offer represents a compelling value proposition for your shareholders. Given the proposed consideration mix of cash and shares, they would enjoy both value certainty and significant potential upside in the combined entity's attractive growth prospects and meaningful synergies. As we discussed, and as I noted in my previous letter to you, we commend you on your successful ongoing implementation of Vision Into Action ("VIA"). I believe Cadbury's share price already reflects its prospects as a standalone entity and the benefits of VIA. Our Possible Offer therefore not only takes into account these factors, but also provides a significant premium and, I believe, significantly more value for your shareholders than Cadbury could create independently.

Together, we can draw on the collective strengths of our two organizations to create a stronger, more competitive global company for the benefit of all our stakeholders. I would ask you to reconsider your rejection of our Possible Offer and would welcome a constructive dialogue.

Yours sincerely,

Irene B. Rosenfeld

Source: "Letters From Kraft CEO Irene Rosenfeld to Cadbury Chairman Roger Carr," *The Wall Street Journal*, September 7, 2009, <http://online.wsj.com/article/SB125230602908289941.html>, accessed March 1, 2012.