



## **Update on progress made since Kraft Foods acquired Cadbury**

January 31, 2011

### **Introduction**

1. On 2 February 2010, Kraft Foods acquired control of Cadbury plc through a tender process that received the unanimous approval of the Cadbury Board of Directors. One year on, Kraft Foods would like to take this opportunity to provide an update on the progress it has made in integrating its businesses in the UK and around the world and on the commitments it made to the UK at the Business, Innovation and Skills Committee last year.
2. Outlined below are key points regarding our progress over the past 12 months, showing that we have fully met all, and in many instances exceeded, the commitments we made.
3. In summary, we said that we would not change Cadbury's brand; that we would continue to make *Cadbury Dairy Milk* and other products in the UK and continue to manage brands from the UK; that we would honour Cadbury's previous commitments to staff at the Somerdale factory; that we would make no further compulsory redundancies of manufacturing employees in the UK for at least two years; that we would honour Cadbury's pension arrangements; and that we would maintain Cadbury's existing commitments to Fairtrade, local community investment and sponsorship of London 2012.
4. We have honoured all of these commitments as well as others that we made to the Committee. In addition, we have increased investment in research and development in the UK, grown sales in the Cadbury business and contributed to the UK economy. Further detail of these developments, and others, is below.

### **Business Performance**

5. While we are not able to disclose exact figures ahead of the release of our full-year results on 10 February, we can say that, through the third quarter, 2010 was a successful year for Cadbury. The combined business performed well despite a difficult economic climate. In the UK for example, Cadbury's Easter sales were up 13% over 2009, and we have sold more than 300 million bars of Fairtrade *Cadbury Dairy Milk* since certification in 2009.
6. In addition, while we are not able to discuss specifics ahead of our results being released on 10 February, based on results through the third quarter, we were pleased with the company's overall performance in the UK and Europe. We believe that this combined success reflects our taking the "best of both" as well as the quality of integration and teamwork and our investments in the business during these nine months. We continue to plan for the future, including for new product development and launches; developing our London 2012 sponsorship activation; and continuing to invest in research and development.

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St. George's House, Bayshill Road, Cheltenham, Glos GL50 3AE



## **Corporate structure and integration**

7. Kraft Foods has operated in the UK and Ireland for more than 85 years. Prior to our merger with Cadbury, Kraft Foods employed around 1,500 people in the UK; that number has now grown to nearly 7,000 people in the UK and Ireland, including 5,000 people in manufacturing across six sites in the UK and three in Ireland. Our focus is on investing to grow and on developing our people and our leading brands. We have created two global centres for research and development in the UK: one for chocolate in Bournville, which combines Cadbury's rich history in chocolate development with Kraft's successful heritage chocolate brands, and one for coffee in Banbury. We will also continue to operate the Cadbury research facility, Reading Scientific Services, which will serve the global Kraft Foods business. We believe this continued investment in high quality R&D jobs is good news both for the UK food manufacturing sector and for the economy as a whole. In total we have created 50 new expert positions at Bournville, as a result of our investment.
8. We continue to integrate the company into our global operations to create the world's leading confectionery company by building on the strengths of both Kraft Foods and Cadbury. An important part of this integration is our European headquarters, which have been in Switzerland since 2008 (as was Cadbury's European operation for a number of years before the acquisition). Many of our main brands, such as *Toblerone*, *Milka* and *Philadelphia*, are sold across European markets, and so our business is structured to support strategic decision-making for Europe as a whole, with a pan-European management team in Zurich. As we have always said we would, we have integrated our two European operations to ensure their strength as part of the global business. By way of indication, Kraft Foods' European business is now bigger than Cadbury's global business at the time of the merger.
9. There has been speculation in the media about the impact of this structure on the tax paid by Kraft Foods and Cadbury. Kraft Foods and Cadbury have always paid their taxes. The reality is that we expect the actual tax paid by the businesses in the UK before and after the acquisition to be roughly the same. Moreover, as a major employer and with significant investments in the UK, Kraft Foods makes a major contribution to the UK economy and to the Exchequer, through corporate taxes, VAT on product sales, employee payments and other streams, all of which generate revenue for the UK Exchequer. We also work with and support a large network of suppliers and customers that in turn bring additional value to the UK economy. Overall, we believe we can best contribute to the UK economy over the long term by being competitive and successful so that we can secure jobs, drive economic growth and help build confidence in the UK as a place to invest.
10. Our systematic approach to creating value all the way through this process – from our suppliers and producers, through the manufacturing process, to our marketing and sales interaction with the consumer – helps to maximise our growth and our contribution to the economy.



## **UK Workforce**

11. The integration of the Kraft Foods and Cadbury businesses is proceeding according to plan. We have retained a great deal (ie the majority) of the talent from the Cadbury workforce – approximately one third of Kraft's top 400 executives today are originally from the Cadbury team. The proportion of the UK management team from Cadbury is even higher. Overall, we are proud of how well Kraft Foods and Cadbury people have come together as a single team with a shared sense of commitment and values.
12. We have been operating in a challenging economic context over the past 12 months. The West Midlands has been particularly hard hit by the economic situation, resulting in an unemployment rate of 9.9% in the region by the end of 2010. The number of unemployed people in the West Midlands rose by 48,000 in the three months to November 2010. Our actions to develop Bournville into our global centre of excellence for chocolate research and development, and to serve as one of our two main UK offices, are set against this trend. In addition, we are honouring our promise that there would be no additional closures of manufacturing facilities in the United Kingdom for a two-year period (running from 16 March 2010) and that there would be no further compulsory redundancies amongst manufacturing employees in the UK during the same period.
13. Kraft Foods recognises the vital role that the food industry plays in the UK economy. Indeed, it is the UK's largest manufacturing sector, and we are proud of our leading role in the industry, both as an investor and as a major employer. Our workforce is central to our success.
14. Kraft Foods devotes a good deal of attention to developing our staff and to training young people through our graduate recruitment and apprenticeship programmes. Kraft Foods and Cadbury both operated graduate recruitment programmes, which we expect to maintain at the same level in the combined company. In 2010 we recruited apprentices at five of our sites in the UK, and we are keen to ensure that these apprentices receive the best possible on-the-job training.

## **Brand management**

15. At Kraft Foods, we are proud of the heritage and range of great brands we have within our portfolio. Our UK chocolate brands include *Cadbury Dairy Milk*, *Crème Eggs*, *Flake*, *Green & Black's*, *Milka*, *Toblerone* and *Wispa*. Other leading Kraft Foods brands in the UK include *Kenco* and *Carte Noire* coffee, *Philadelphia* cream cheese, and *Oreo*, *Ritz* and *Belvita* biscuits. Our brands are leaders in the UK market, enjoying a strong consumer following. Brand stewardship has long been, and remains, key to our success. This is reflected in our continuing involvement, investment and commitment to the UK as a whole.
16. We fully recognise the strength of the Cadbury brand and its well-loved products. We will not replace the iconic Cadbury logo on our products. The UK continues to receive royalties from the use of the Cadbury brand name overseas, and we remain



proud recipients of the Royal Warrant. In Bournville, the Cadbury name and flags will remain prominent fixtures on the exterior and interior of our offices, just as they have for decades, and the Uxbridge headquarters will remain 'Cadbury House'. Our visitor centre at Cadbury World is one of the most popular tourist attractions in the Midlands.

17. We are committed to our Cadbury brands in the UK, from manufacturing through to marketing and sales. The great majority of the Cadbury product we sell in the UK and Ireland is made in the UK and Ireland, and we have over 100 of our UK-focused marketing team working in the UK (approximately 98 per cent). The quality and recipe of Cadbury chocolate are unchanged, and we continue to support Cadbury's relationships with UK dairy farmers who supply the famous "glass and a half" of milk.

### **Capital Investment and Research and development**

18. As we pledged to the Committee last year, we have built on both Cadbury's and Kraft Foods' strong history of innovation by strengthening our investment in UK research and our global centres for development in Reading, Banbury and Bournville.
19. We are making a £15.8 million investment in our coffee facility in Banbury for two new packing lines and overall process improvement.
20. Last May we announced that Bournville, following a \$216 million (£135m) investment programme over the last five years, will be Kraft Foods' global centre of excellence for chocolate research and development. The centre of excellence will drive new product development, new technologies and best practices for such beloved chocolate brands as *Cadbury Dairy Milk*, *Milka*, *Toblerone*, *Côte d'Or*, *Terry's*, *Flake*, *Crème Egg*, *Green & Black's*, *Suchard*, *Freia*, *Marabou* and *Lacta*. Bournville will drive innovation for the Kraft Foods chocolate business all over the world.
21. We have met and exceeded our specific commitment to maintain Cadbury's R&D sites in the UK. Cadbury's existing science centre in Reading will become a global science and technology centre serving Kraft Foods worldwide. Both the global centres in Bournville and Reading are in addition to Kraft Foods' existing global centre of excellence for coffee, which has been in Banbury for more than forty years.

### **Somerdale**

22. We have continued to support employees affected by the closure of the Somerdale plant, as Cadbury had planned. For example, we have used a comprehensive range of measures, including appropriate redundancy packages and advice on seeking new employment or exploring other options, to assist those who have lost their jobs. All employees under notice have been offered one-to-one meetings on



pensions, personalised counselling with an independent financial advisor, on-site job search support and access to money for retraining. We have also organised a Jobcentre on site and have provided significant re-training opportunities for staff.

23. A number of employees have had support from Business Link to help them set up their own business; 200 have registered with the outplacement agency and 60 have now found other employment; around 50 are retiring or taking career breaks; 20 are relocating to other Kraft sites. The agency has contacted over 600 local employers to source jobs, followed up leads in newspapers and provided individual searches for employees to identify suitable opportunities.
24. The factory has recently stopped production, and we have been working closely with local authorities to come up with a blueprint for the future use of the site. This will provide both housing and employment opportunities. We will help to preserve the positive contribution of the Somerdale site to the Keynsham community after the factory's closure by rebuilding the Fry Club at Somerdale.

## **Corporate responsibility and the environment**

### **Fairtrade and Rainforest Alliance**

25. A key part of our ongoing commitment to strengthening our business is to continue to build our relationship with the Fairtrade Foundation. Our commitment is represented by certification on *Cadbury Dairy Milk* which has grown to cover the UK, Ireland, New Zealand, Australia and Canada. By the end of this year we will also be able to include the entire *Green & Blacks* range in Fairtrade certification. We also continue to work closely with and support the Rainforest Alliance for other chocolate brands in our portfolio, such as *Cote d'Or*, and are looking for opportunities to synchronise our work across the two partnerships and activities to maximise the effectiveness of both programmes.
26. To reinforce our support for Fairtrade and the Cadbury Cocoa Partnership, Nick Bunker, President of Kraft Foods UK and Ireland, visited Ghana in Autumn 2010 with Harriet Lamb of the Fairtrade Foundation and Malcolm Bruce MP, Chair of the International Development Committee, to see at first hand the importance of the work being done and the value of our continued support at the grassroots level. A further working field trip in November, led by our European Corporate Affairs Director, Sara Sizer, brought together at a community level the partnership programmes supported by Kraft Foods including the Cadbury Cocoa Partnership, Fairtrade Foundation, Rainforest Alliance and the Gates Foundation / World Cocoa Foundation Cocoa Livelihoods Programme.
27. Kraft Foods globally is also the largest buyer of coffee and cocoa beans from Rainforest Alliance Certified™ farms; in the UK, all the coffee beans we buy for the Kenco coffee range are from Rainforest Alliance Certified™ farms. In 2010, we bought about 50,000 metric tons of coffee for our global business from Rainforest Alliance Certified™ farms, compared with 34,000 metric tons (more than 75 million pounds) in 2009 which was, in turn, a 15 percent increase over 2008. Reinforcing



our involvement in this area, Nick Bunker is also chair of the UK Food and Drink Federation's committee on Sustainability.

## **Environment**

28. We continue to make progress in reducing our CO<sub>2</sub> emissions to achieve our target of reducing emissions by 25 percent between 2005 and 2011. This is consistent with Cadbury's longer term ambition to reduce CO<sub>2</sub> emissions by 50 percent by 2020. As from 2011 we will have a common baseline that will allow us to pursue ambitious CO<sub>2</sub> emission reductions as a combined business and will soon announce our goals beyond 2011. Kraft Foods has actively participated in the Carbon Disclosure Project (CDP) since 2005 and was named in the 2010 Global CDP Leadership Index. The Carbon Disclosure Leadership Index recognises companies that demonstrate good internal data management practices for understanding greenhouse gas emissions, including energy use. Companies that appear on this index have also demonstrated clear consideration of how climate change impacts their business.

## **Health and Well-being**

29. At Kraft Foods, we help our consumers to make informed decisions about what they eat by providing nutritional labelling on all of our products in all markets – whether this is required or not. In the UK all our products clearly display nutritional guideline daily amounts. Our portfolio includes many better choice products and we are constantly investigating how further reformulation can be undertaken to reduce levels of fat, salt and calories. We were part of the first group of companies to introduce voluntary front-of-pack GDA nutrition labelling in the UK, helping consumers to make informed choices, and since 2004 we have supported the health4schools programme, an award-winning initiative promoting healthy diet, sustainability and active play to over 100 schools in the Gloucestershire area. We have recently announced that we will be making a similar investment over the next three years in Birmingham.

## **London 2012**

30. Kraft Foods is delivering Cadbury's sponsorship of London 2012 and is pleased with the progress over the last year. In August 2010 we launched Spots v Stripes as part of Cadbury's official partnership with the London 2012 Olympic and Paralympic Games. This innovative outreach programme aims to engage people across the country in the spirit of the Games and strengthen communities by building a lasting legacy of play.

31. Since its launch, the Spots v Stripes programme has encouraged over 12,500 people to play games at more than 200 Spots v Stripes community events across the UK and Ireland, while over one million people have logged on to the official Spots v Stripes website to see how they can get involved. 2011 will see even

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St. George's House, Bayshill Road, Cheltenham, Glos GL50 3AE



greater support for Spots v Stripes, with further backing from brands such as *Cadbury Dairy Milk*.

32. As part of our community programme we are working with the charity Groundwork to put in place a national network of Spots v Stripes Community Games Coordinators, with a target to recruit 2,000 volunteers. We are also taking forward plans to invest in community spaces in Birmingham, Sheffield, Marlbrook, Chirk, Dublin, Uxbridge, Reading, Crediton, and Hackney to create areas for people to play games. In addition managers from Kraft Foods have worked with Paralympic teams to share strategic and leadership support. Through these activities Spots v Stripes will help to deliver a lasting legacy for the London 2012 Olympic and Paralympic Games by building stronger communities through play.

### **Working with our communities**

#### **Cadbury Foundation**

33. We have continued to fund the Cadbury Foundation, which was first established in 1935 by Cadbury Brothers Limited. At a very positive and constructive meeting with the Foundation last March, we agreed to provide £750,000 a year as part of a three-year programme.

#### **Community investments**

34. Kraft Foods has no plans to change Cadbury's community investment goal, through volunteering or direct funding and we are on track to exceed this target. The percentage of Cadbury employees in the UK & Ireland who volunteered in 2010 increased to 34 per cent, from 29 per cent in 2009, and the value of community investment rose to £1.9 million, from £1.4 million in 2009.
35. Every year, Kraft Foods employees take part in a global community service event called Delicious Difference Week. In 2010 almost 1,150 Kraft Foods employees in the UK took part in some form of volunteering, offering over 5,500 hours of their combined time and benefitting an estimated 6,425 people.
36. More recently, staff spent an additional 500 hours volunteering to help with the physical regeneration of the community spaces near to its UK sites as part of Cadbury's Spots v Stripes community programme, and such activities will continue in 2011.
37. We have also announced plans to make a substantial investment over the next three years to bring Kraft Foods' innovative health4schools education programme to schools in Birmingham. We have run this programme in schools in Gloucestershire since 2004, working in conjunction with NHS Gloucestershire and Gloucestershire County Council. It has helped more than 100 schools to deliver



educational activities relating to growing food, learning to cook, eating breakfast and active play, providing funding for teacher training, resources packs and extra facilitators. The programme has been so successful in engaging schoolchildren on the issue of healthy lifestyles that it has been recognised by organisations such as Business in the Community.

38. We will be working with Birmingham City Council's Health Education Service over the coming months to tailor the health4schools programme to the needs of local schools, with the aim of having the programme up and running by the start of the 2011 academic year in September.

### **In conclusion**

39. In acquiring Cadbury, we knew that we were acquiring not only an excellent company but one with a strong emotional connection with millions of people. We are working hard to prove our respect for Cadbury's heritage and values and to show the many benefits of combining with Kraft Foods. Of course, actions are what matter most, and we believe this brief report demonstrates that we are doing what we said we would do. Kraft Foods is proud of the skilled and committed team we have in the UK and pleased that we can contribute to the country's economy and to the everyday lives of the millions of people who enjoy our products.

Kraft Foods

31 January 2011

### FORWARD-LOOKING STATEMENTS

This document contains a number of forward-looking statements. Words, and variations of words such as "expect," "goals," "plans," "believe," "continue," "may," "will," and similar expressions are intended to identify our forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause our actual results to differ materially from those indicated in our forward-looking statements. Please also see our risk factors, as they may be amended from time to time, set forth in our filings with the SEC, including the registration statement on Form S-4, as amended from time to time, filed by Kraft Foods in connection with the Cadbury offer, our most recently filed Annual Report on Form 10-K and subsequent reports on Forms 10-Q and 8-K. Kraft Foods disclaims and does not undertake any obligation to update or revise any forward-looking statement in this document, except as might be required by applicable law or regulation.

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