

# Kraft Foods

## Hitting Our Sweet Spot

CAGNY Conference

February 22, 2011



# Forward-looking statements

This slide presentation contains a number of forward-looking statements. The words “believe,” “expect,” “anticipate,” “optimistic,” “intend,” “plan,” “goals,” “may,” “aim,” “will” and similar expressions are intended to identify our forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding Cadbury; our portfolio; growth strategies; the virtuous cycle; Kraft Developing Markets; Kraft Europe; our focus; the economy, consumer and customer environment; input costs; year-end momentum; the base business; growth versus our competitors; North America brands and growth; our investments in brand building; new product development; our win every account, store and household strategy; our scale; well-positioned for profitable growth; ongoing and productivity savings; gross margin trend; overhead efficiency; short-term and long-term revenue growth; margin expansion; synergies and profit margins; targeting top-tier margins; EPS growth; 2011 top-tier growth; and long-term growth targets. These forward-looking statements involve risks and uncertainties, many of which are beyond our control, and important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, increased competition, pricing actions, continued volatility in and increase in commodity costs, increased costs of sales, our indebtedness and our ability to pay our indebtedness, risks from operating globally, our failure to successfully execute in developing markets, our failure to integrate successfully and recognize the synergies from our combination with Cadbury and tax law changes. For additional information on these and other factors that could affect our forward-looking statements, see our risk factors, as they may be amended from time to time, set forth in our filings with the SEC, including our registration statement on Form S-4, as amended from time to time, filed in connection with our Cadbury offer, our most recently filed Annual Report on Form 10-K and subsequent reports on Forms 10-Q and 8-K. We disclaim and do not undertake any obligation to update or revise any forward-looking statement in this slide presentation, except as required by applicable law or regulation.

# Agenda

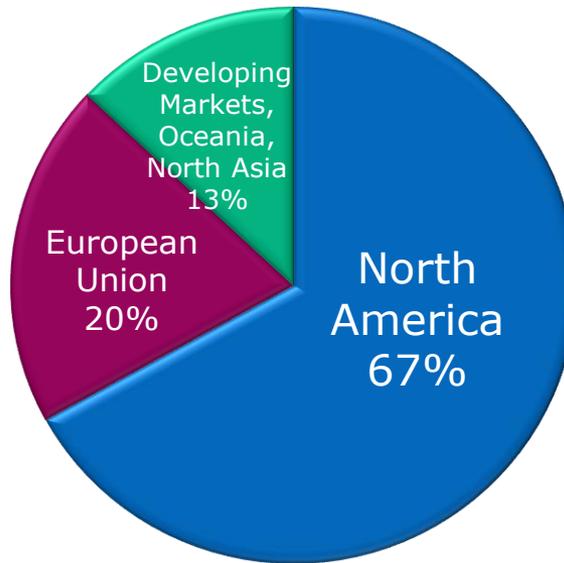
- Hitting our sweet spot
- Winning in North America
- Fueling a Virtuous Cycle
- Delivering top-tier financial performance

Irene Rosenfeld  
Chairman and CEO

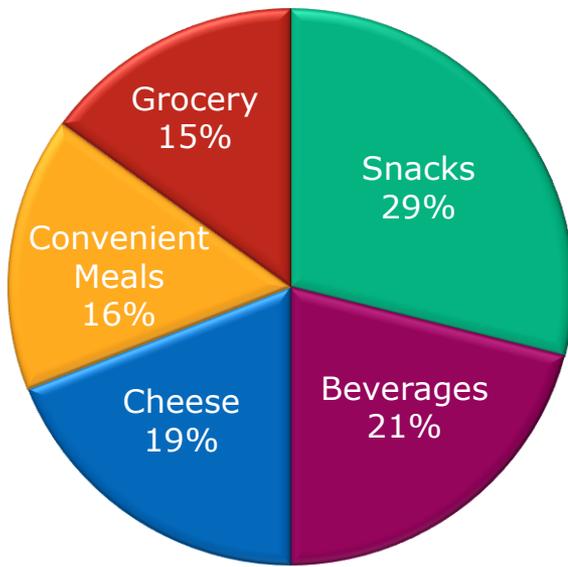


# Began our transformation in 2007

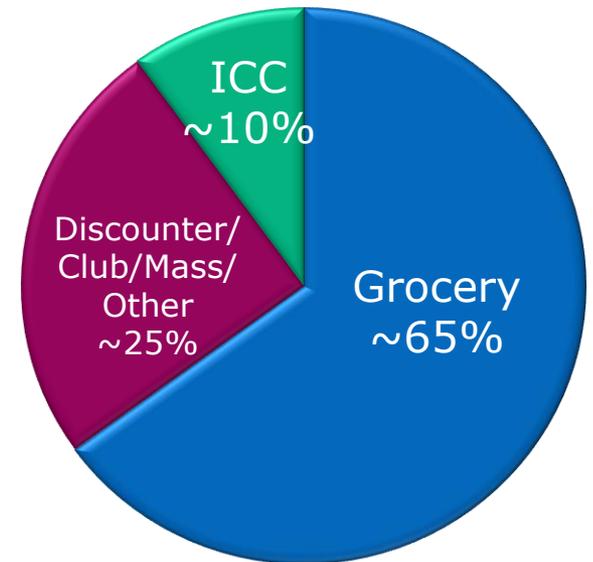
## Geographic Mix<sup>(1)</sup>



## Sector Mix<sup>(1)</sup>



## Channel Mix



(1) As reported originally in Kraft Foods 2006 Form 10-K filed with the SEC on March 1, 2007. Amounts have not been revised to reflect the current Kraft Foods structure and accordingly are not in line with current presentation.

# Positioned portfolio for faster growth

## Divestitures



## Acquisitions



*(European rights)*

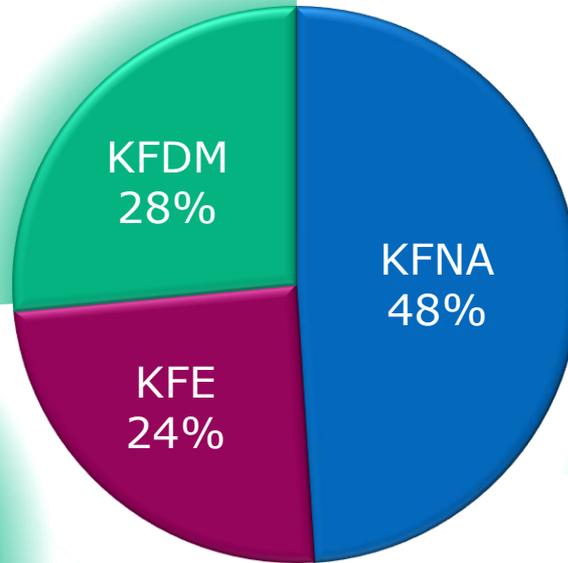


# Cadbury ahead of investment case

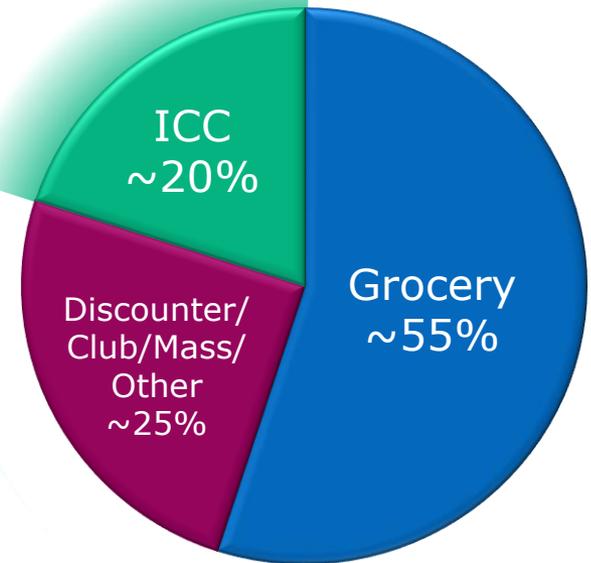
- Integration savings coming faster
- Growth plans in place
  - 2010: Consolidated management, completed plans at country level
  - 2011: Execute the plan
- Less dilutive to EPS in 2010
- EPS accretive in 2011
- Strong free cash flow

# Today's portfolio positioned for sustainable, top-tier growth

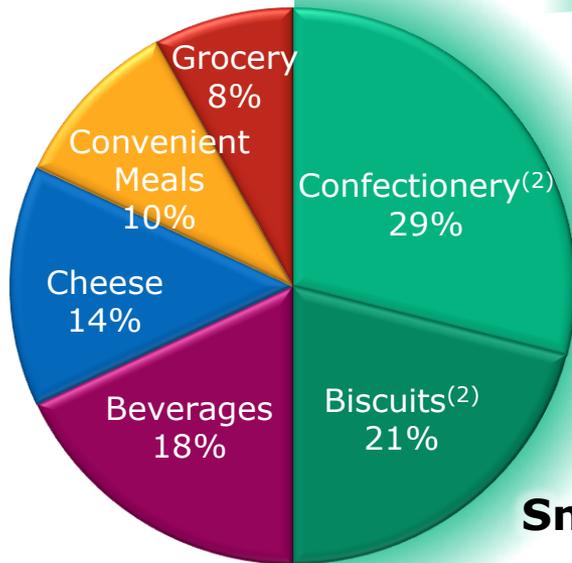
## Geographic Mix<sup>(1)</sup>



## Channel Mix<sup>(1)</sup>



## Sector Mix<sup>(1)</sup>

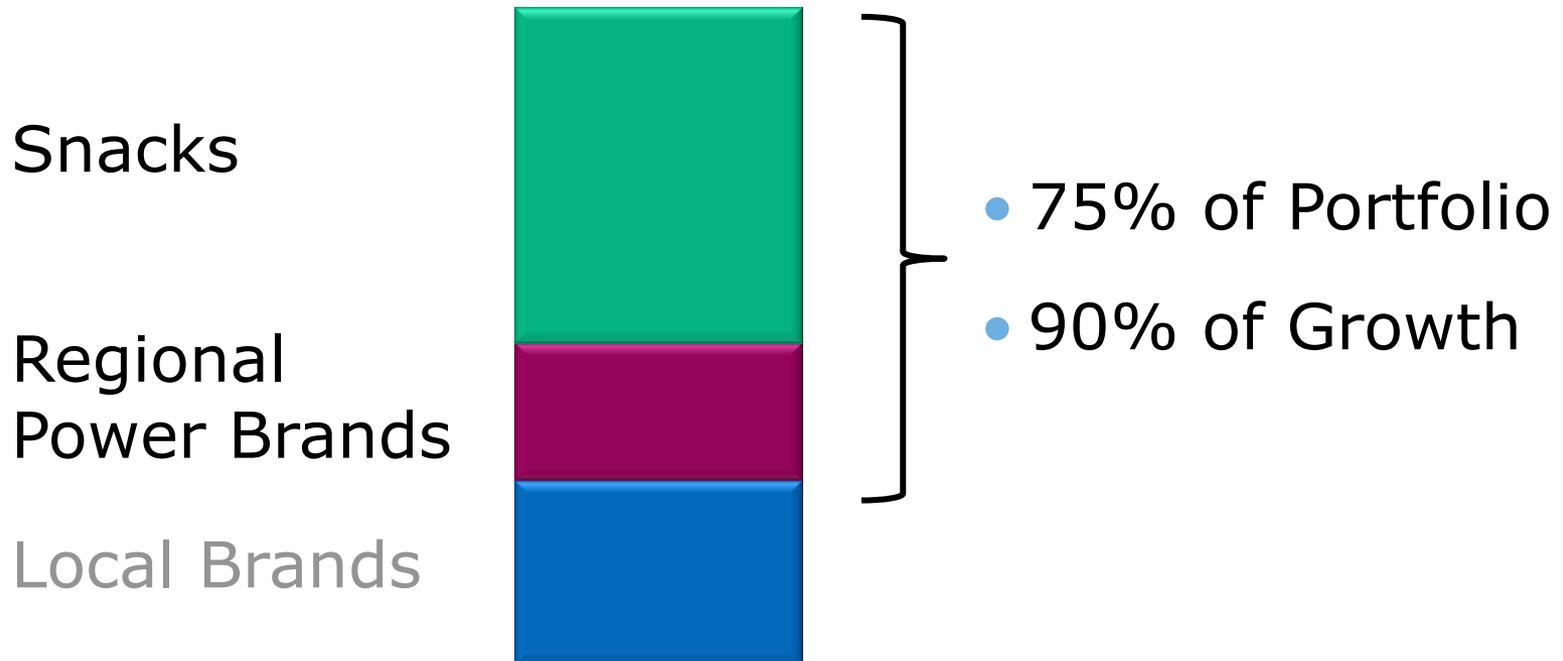


**Snacks 50%**

(1) 2010 Pro Forma amounts reflect the acquisition of Cadbury on a full-year basis.

(2) Biscuits and Confectionery were previously reported combined and known as Snacks. With the Cadbury acquisition, the Biscuits and Confectionery sectors have been separately broken out. The Biscuits sector primarily includes cookies, crackers and nuts. The Confectionery sector includes chocolate, gum and candy.

# Snacks and Power Brands drive growth



# Three strategies drive growth

**Delight Global  
Snacks Consumers**

**Unleash the  
Power of Our  
Iconic Heritage  
Brands**

**Create a Performance-Driven,  
Values-Led Organization**

# Well-positioned to benefit from a virtuous cycle



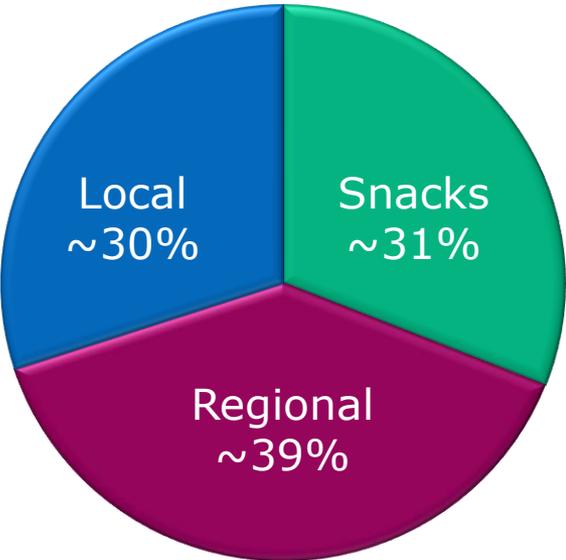
# Same growth formula around the world

## Category Portfolio Composition

2010

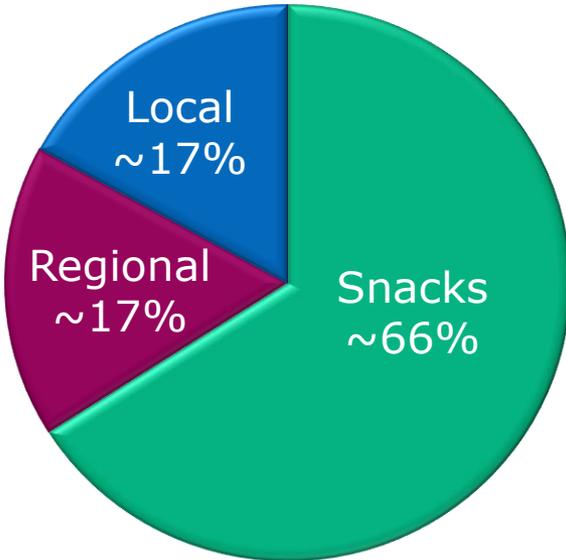
### North America

\$24.0B Revenue



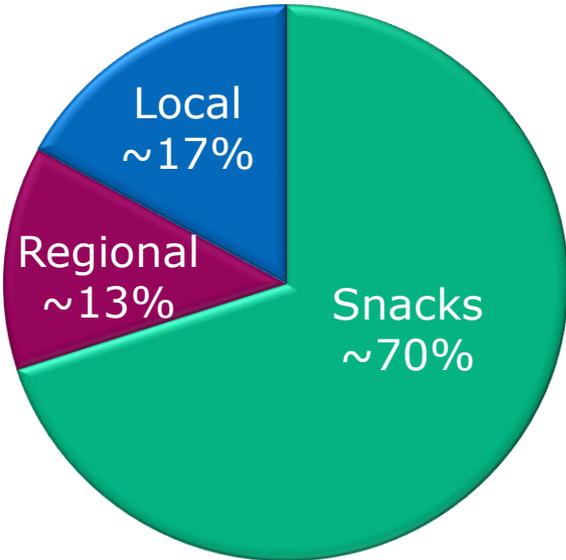
### Europe

\$11.6B Revenue



### Developing Markets

\$13.6B Revenue

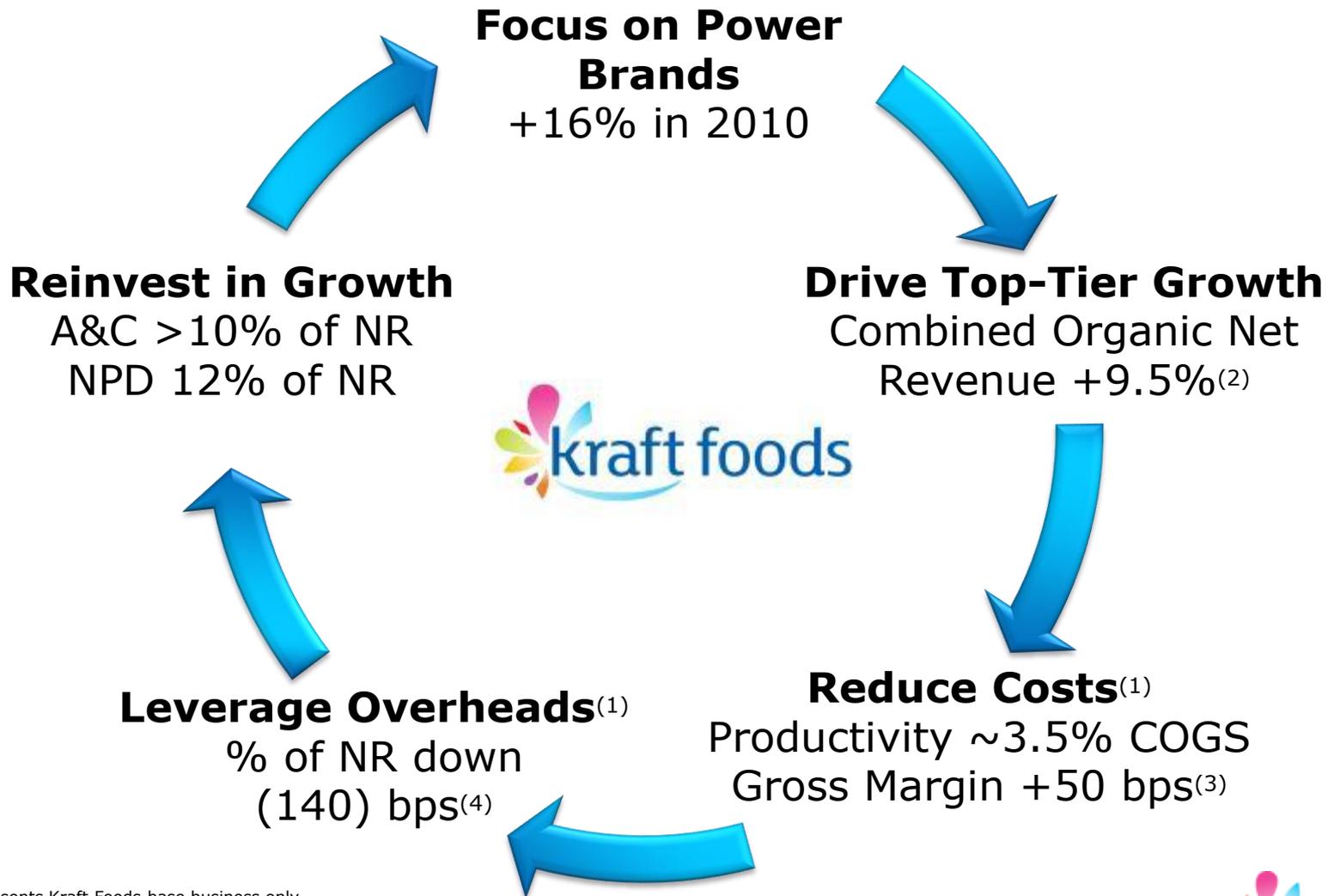


# Kraft Foods Developing Markets



**Sanjay Khosla**  
President

# Kraft Foods Developing Markets is driving a virtuous cycle



(1) Represents Kraft Foods base business only.

(2) Reported Net Revenue growth was 71.1%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

(3) Reported Gross Margin was up 180 bps. See GAAP to Non-GAAP reconciliation at the end of this presentation.

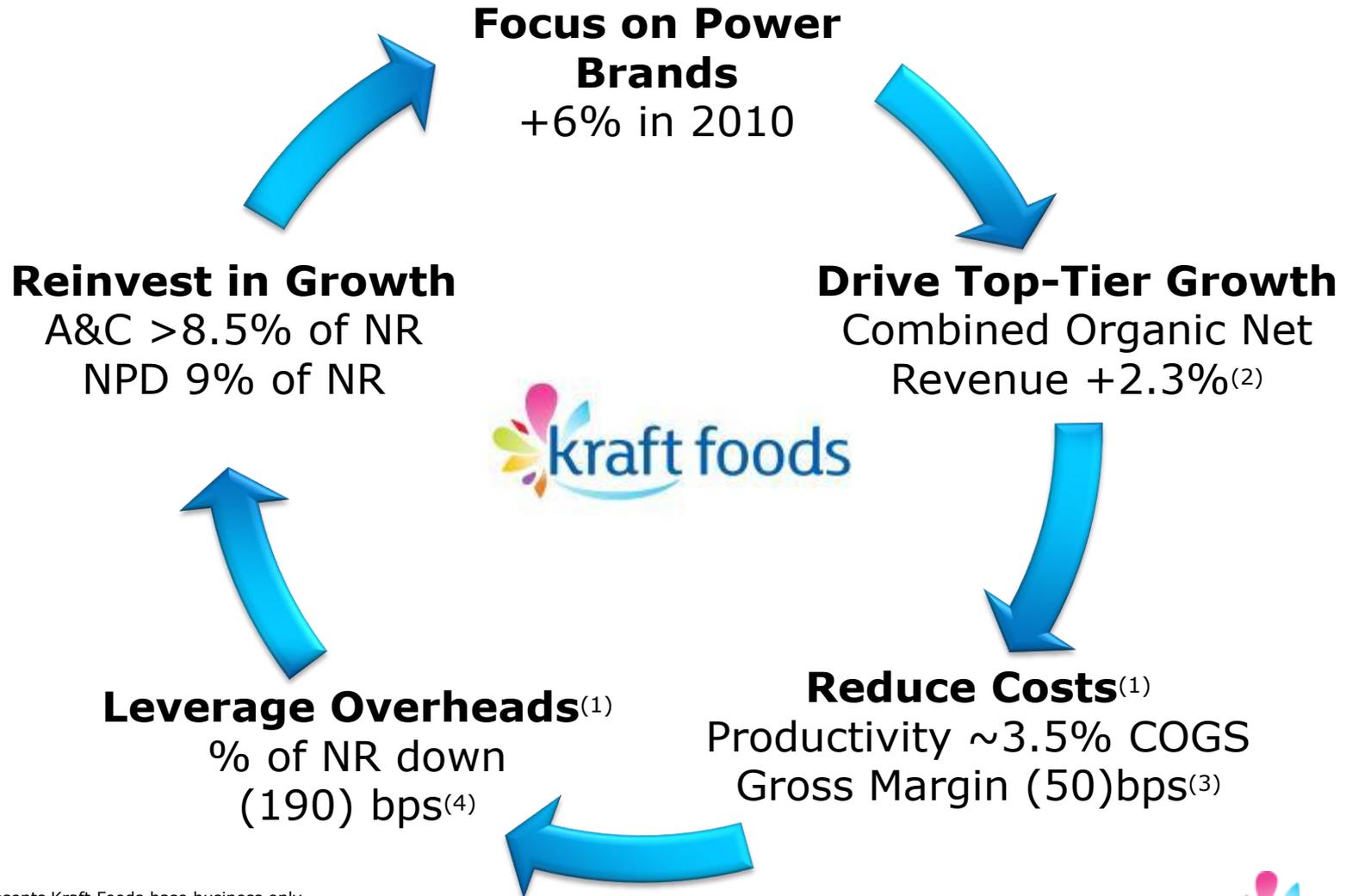
(4) Reported Overheads as a % of Net Revenues increased 100 bps. See GAAP to Non-GAAP reconciliation at the end of this presentation.



**Mike Clarke**

President

# Kraft Foods Europe is driving a virtuous cycle



(1) Represents Kraft Foods base business only.

(2) Reported Net Revenue growth was 32.6%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

(3) Reported Gross Margin declined 60 bps. See GAAP to Non-GAAP reconciliation at the end of this presentation.

(4) Reported Overheads as a % of Net Revenues decreased 20 bps. See GAAP to Non-GAAP reconciliation at the end of this presentation.

# Virtuous cycle is paying off

- **KFDM in full swing**
  - Upside from Cadbury synergies yet to come
- **KFE delivering solid results**
  - Significant synergies from LU and Cadbury ahead
- **KFNA showing positive momentum**

# Winning in North America

Tony Vernon

President  
Kraft Foods North America



# How can KFNA ignite its own virtuous cycle?



# Unrivaled portfolio of iconic brands

## Snacks



## Beverages



## Convenient Meals



## Cheese



## Grocery



# The environment remains difficult ...

## Economy

- Weak GDP rebound
- Stubbornly high unemployment

## Consumer

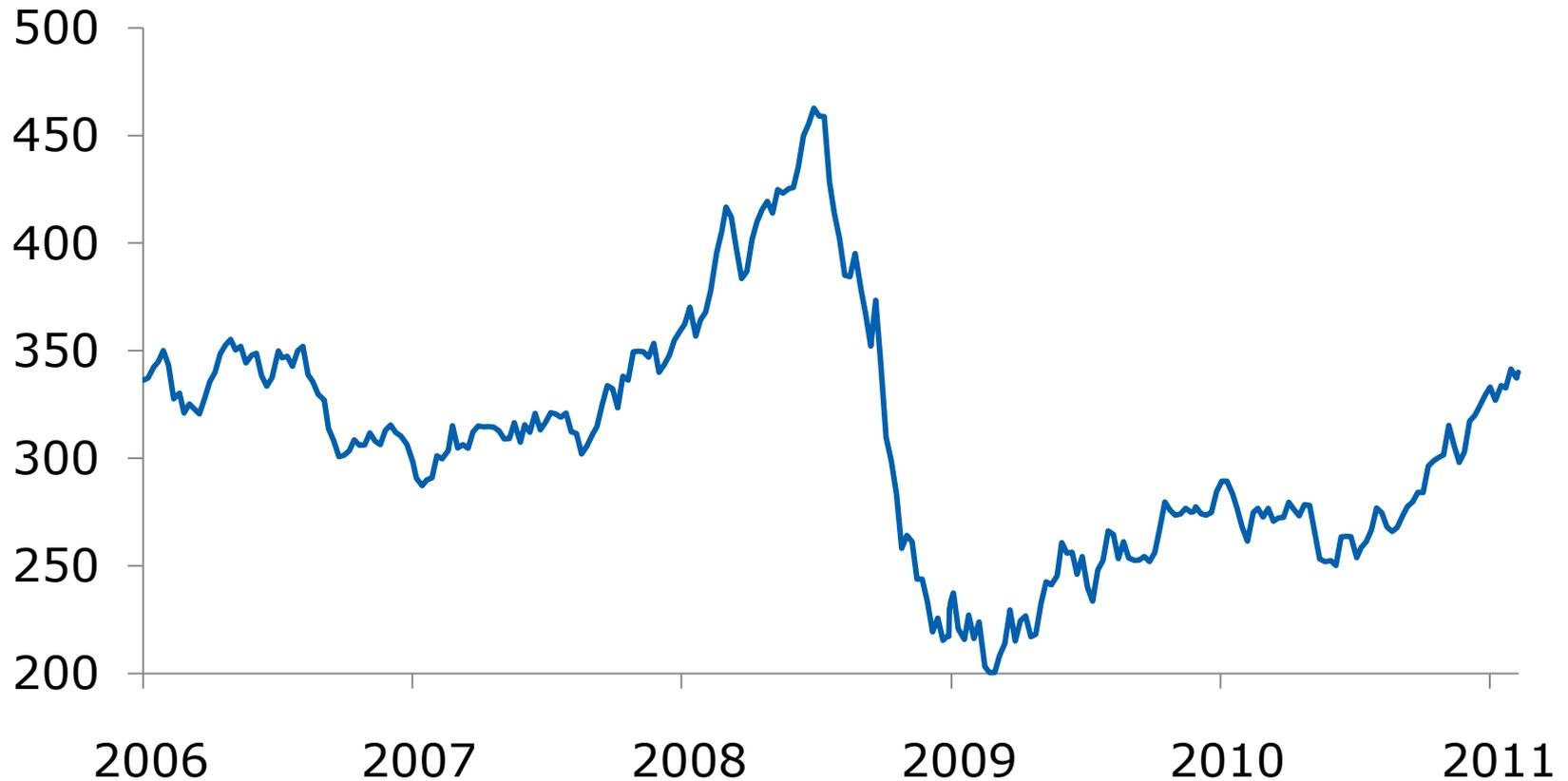
- Low consumer confidence
- Strong focus on value
- Away-from-home traffic improving, but below historical levels

## Customer

- Difficult pricing environment
- Aggressive competitor, Retailer Brand promotional tactics
- Value-focused retailers winning

... and input costs are on the rise

## CRB Commodity Index

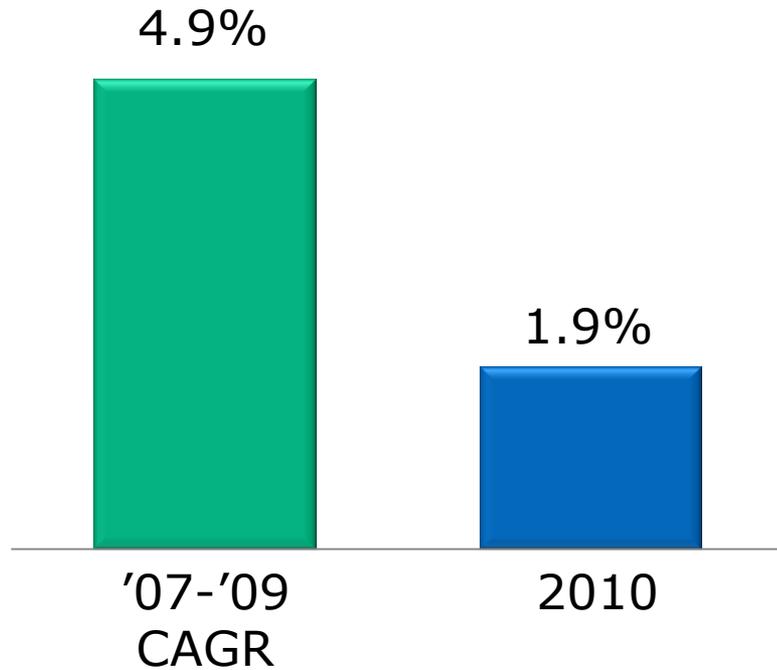


Source: Thomson Reuters/Jeffries CRB Index

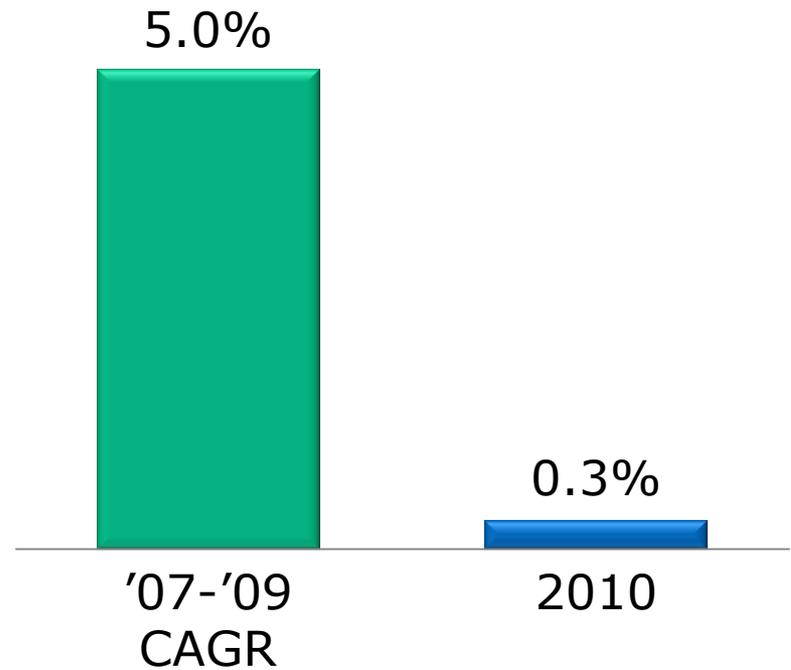


# U.S food categories challenged

## Kraft Foods Categories

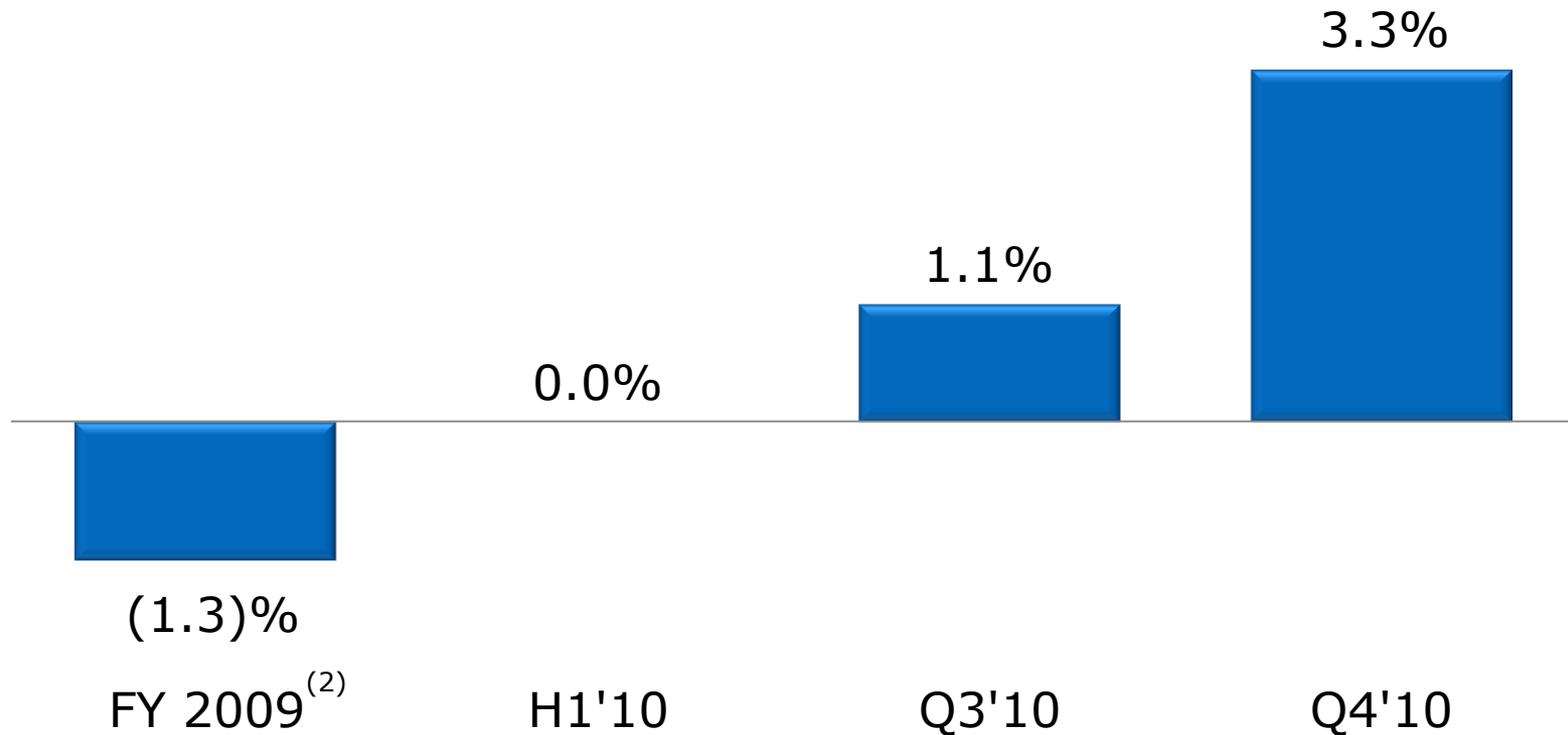


## Total U.S. Food & Beverage



# Despite these challenges, sequential progress

## KFNA Combined Organic Net Revenue Growth<sup>(1)</sup>



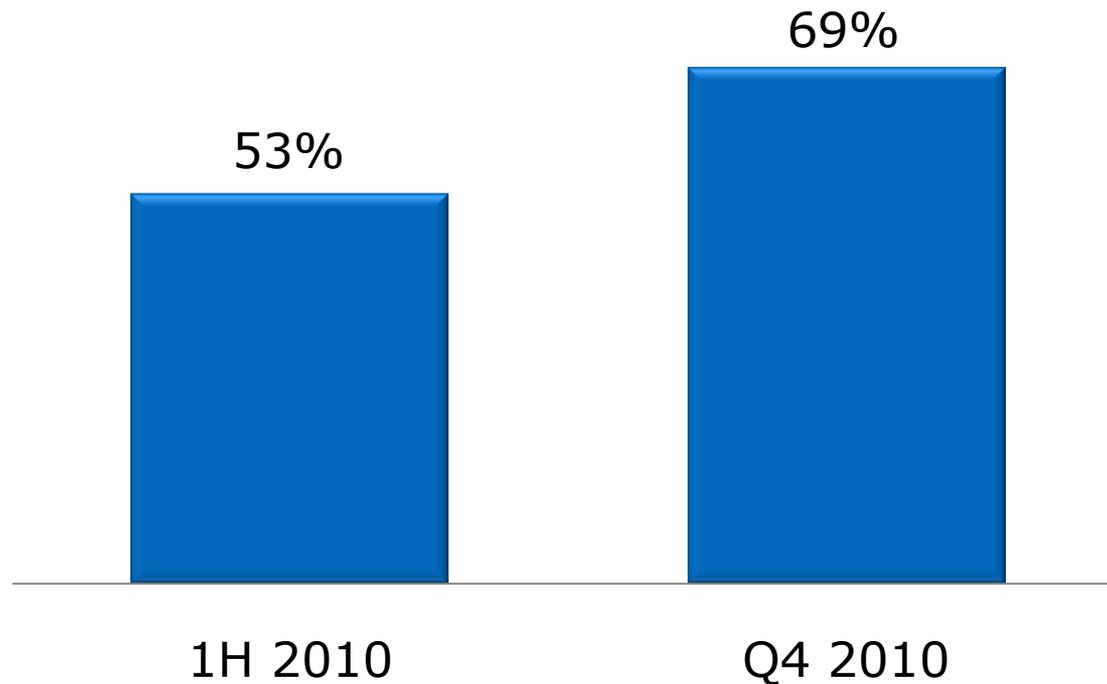
(1) Reported Net Revenue growth were: FY 2009 (2.2%); H1'10 6.8%; Q3'10 9.3%; Q4'10 12.2%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

(2) Reflects Kraft Foods North America base business only.

... and we exited the year with strong share momentum

## Percent of U.S. Retail Revenue Gaining/Holding Share

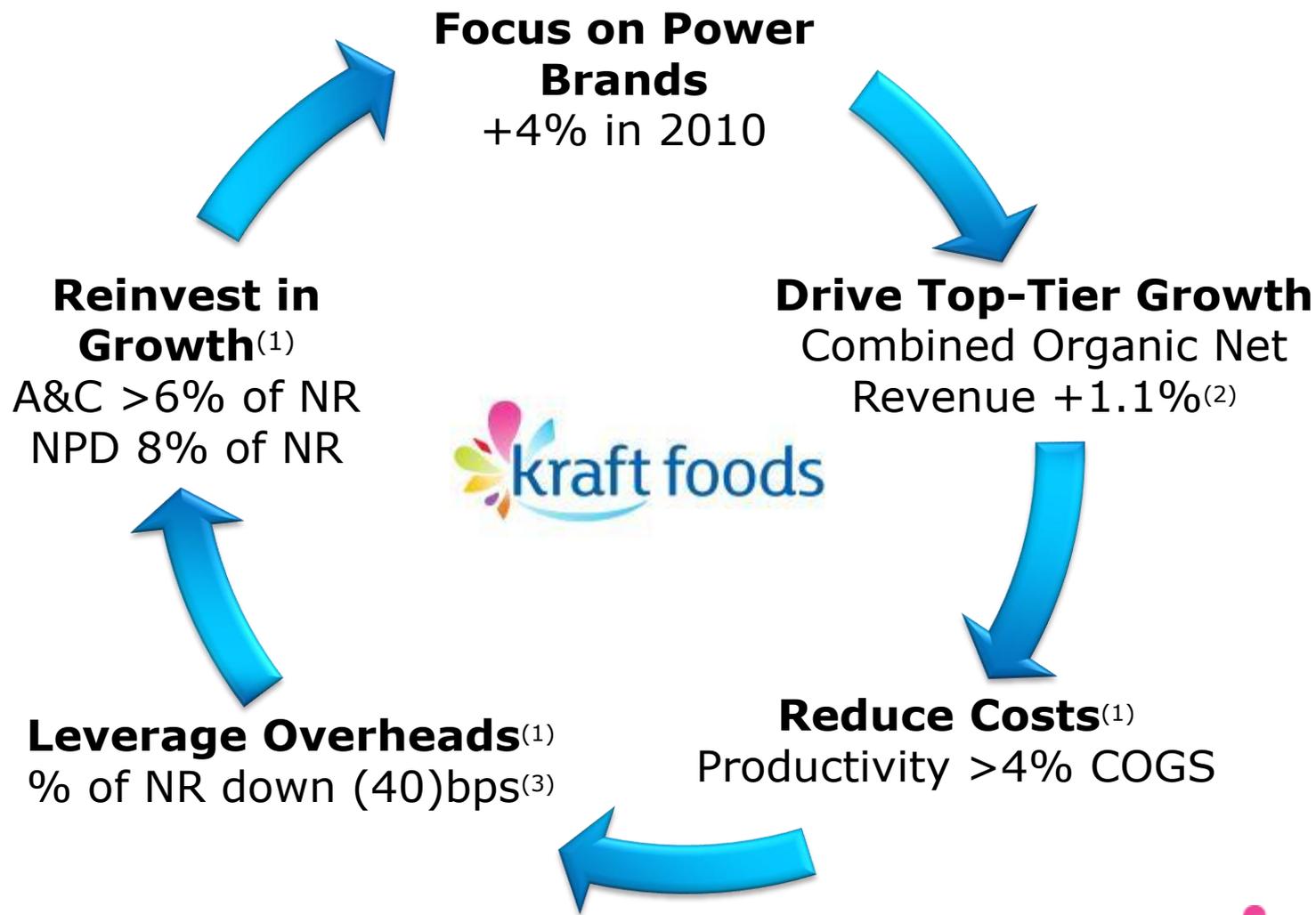
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Source: 4-outlet data, Nielsen.



# Gaining momentum on base business



(1) Represents Kraft Foods base business only.

(2) Reported Net Revenue growth was 8.8%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

(3) Reported Overheads as a % of Net Revenues increased 20 bps. See GAAP to Non-GAAP reconciliation at the end of this presentation.



# Grow faster than our categories and key competitors

- Revitalize our brands
  - Invest in Power Brand advertising
  - Grow Local Brands through entrepreneurial management
  - Drive break-through innovation
- Increase marketing and sales excellence
- Deliver record savings from End-to-End Cost Management
  - Supply chain savings
  - ~~Zero~~ overhead growth

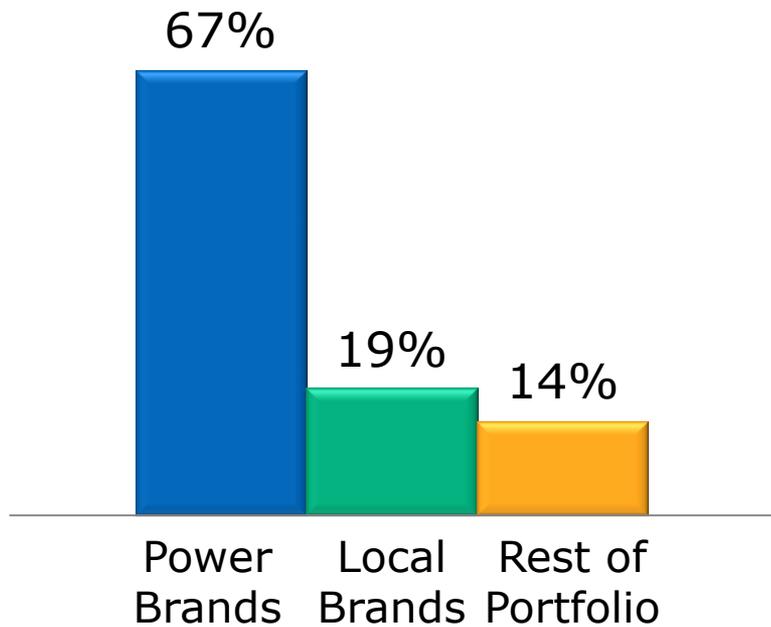
*Negative*

# 40 Brands drive North America

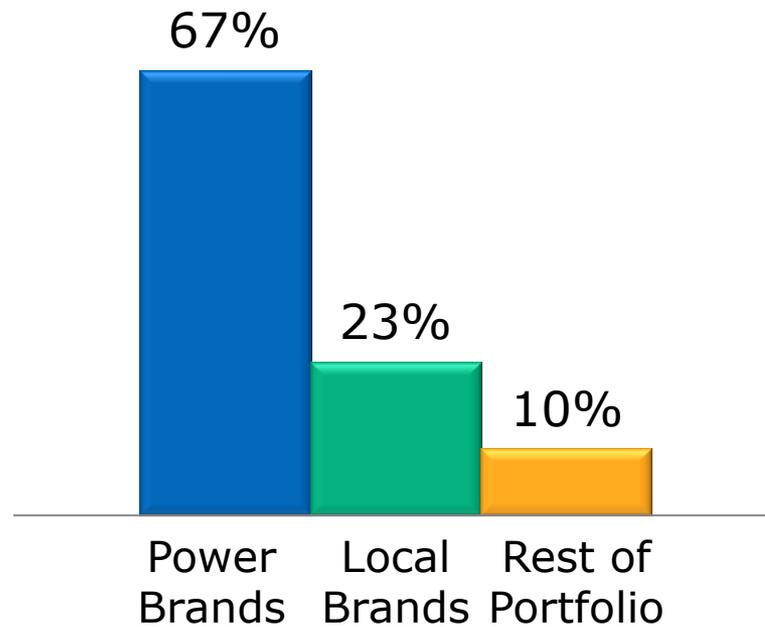
## U.S. Retail Portfolio

2010 Percentage of Net Revenue and Operating Income

### Net Revenue



### Operating Income



# Marketing & Innovation focused on 20 Power Brands

Snacks



Beverages



Convenient Meals



Cheese



Grocery



# New major advertising campaigns

## New Advertising

Q1 '10



Crystal Light



Triscuit

Q2 '10



JELL-O

Kool-Aid

Maxwell House

Q3 '10



OREO

Dentyne

Q4 '10



Wheat Thins

H1 '11



KRAFT Singles

HALLS

KRAFT PHILADELPHIA

Miracle Whip

*Commercials playing...*

# Great advertising working on Power Brands

- Base volume trends up >300 bps
- Revenue up 4%
- Market share up an average of 30 bps

# 20 Local Brands managed smartly for profitable growth

Snacks



Beverages



Convenient Meals



Cheese

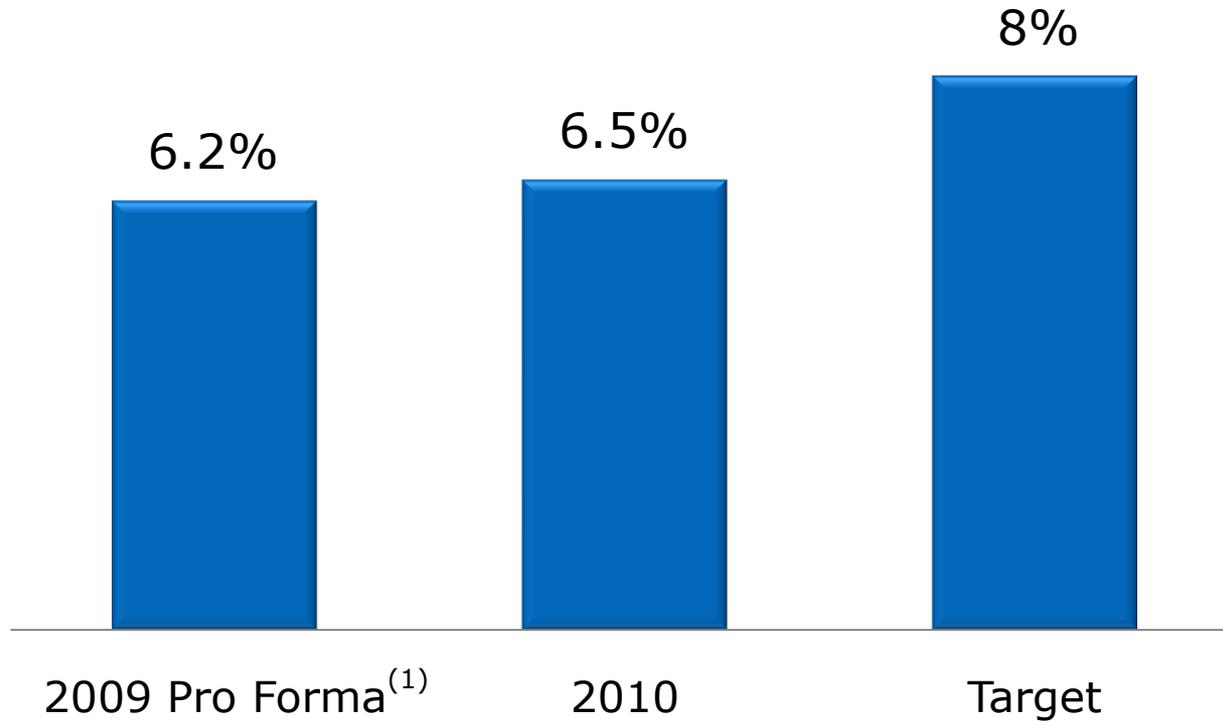


Grocery



# Investments in brand building will increase

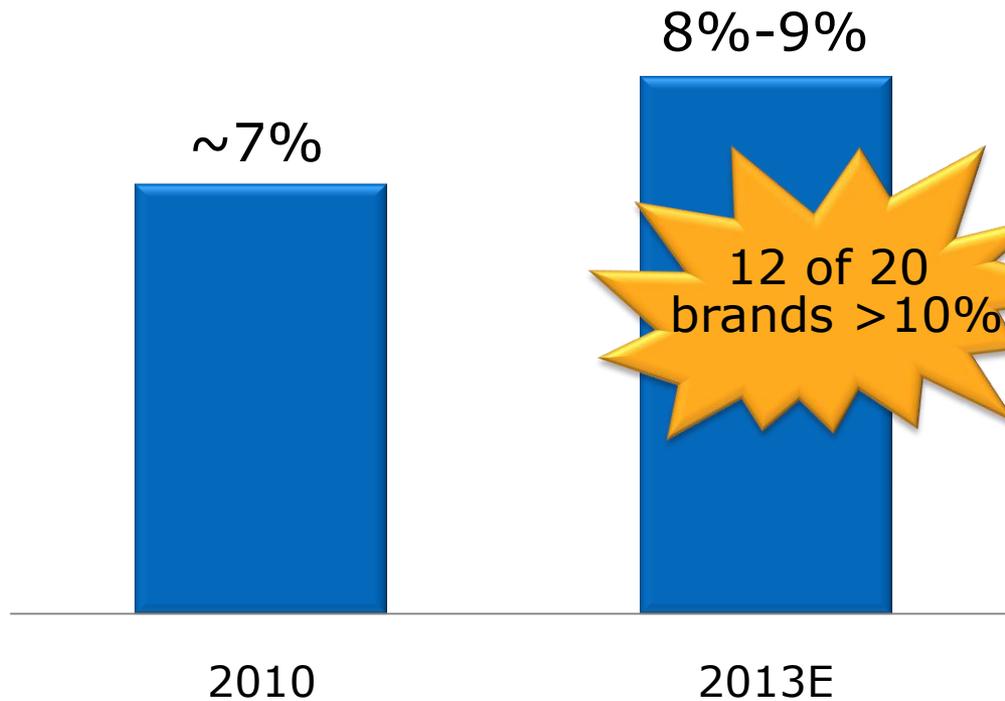
## KFNA A&C as a Percentage of Net Revenues



(1) Pro Forma for the Cadbury acquisition.

# Increased Power Brand advertising driving mid-single digit growth

## Power Brand A&C Spending (% of Net Revenue)

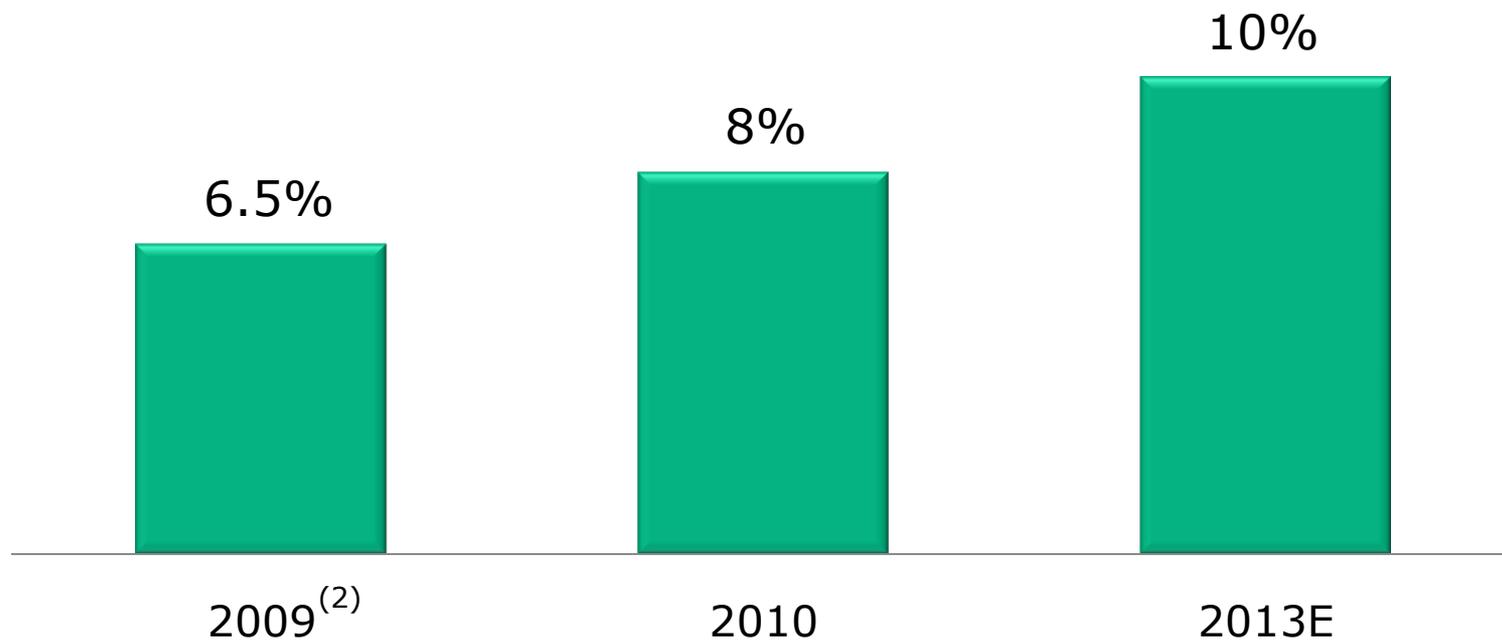


**Mid-Single Digit Growth**

**Mid-to-High Teens Margins**

# Stepping up growth from new products

## New Product Development as % of Net Revenue<sup>(1)</sup>



(1) 3-year trailing basis.

(2) Pro forma combined Kraft Foods base business and Cadbury.

# Fewer, Bigger, Better, Faster



# Win every account, store, household

## Grocery / Wall-to-Wall

- Incremental revenue growth in 16,600 stores
- Localized, customer-specific insights
- Better merchandising enhances margins, sales
- Fewer, bigger, more effective promotions

# Scale as a competitive advantage



- Strong ROI
- 60+ retailers activated
- Drove customer programming, incremental merchandising, brand equity
- Donated 21 million meals to Feeding America

# Win every account, store, household

## Grocery / Wall-to-Wall

- Incremental revenue growth in 16,600 stores
- Localized, customer-specific insights
- Better merchandising enhances margins, sales
- Fewer, bigger, more effective promotions

## ICC / Hot Zone

- High margins
- Significant convenience store synergies
- Leverage Cadbury's strength in "Hot Zone"

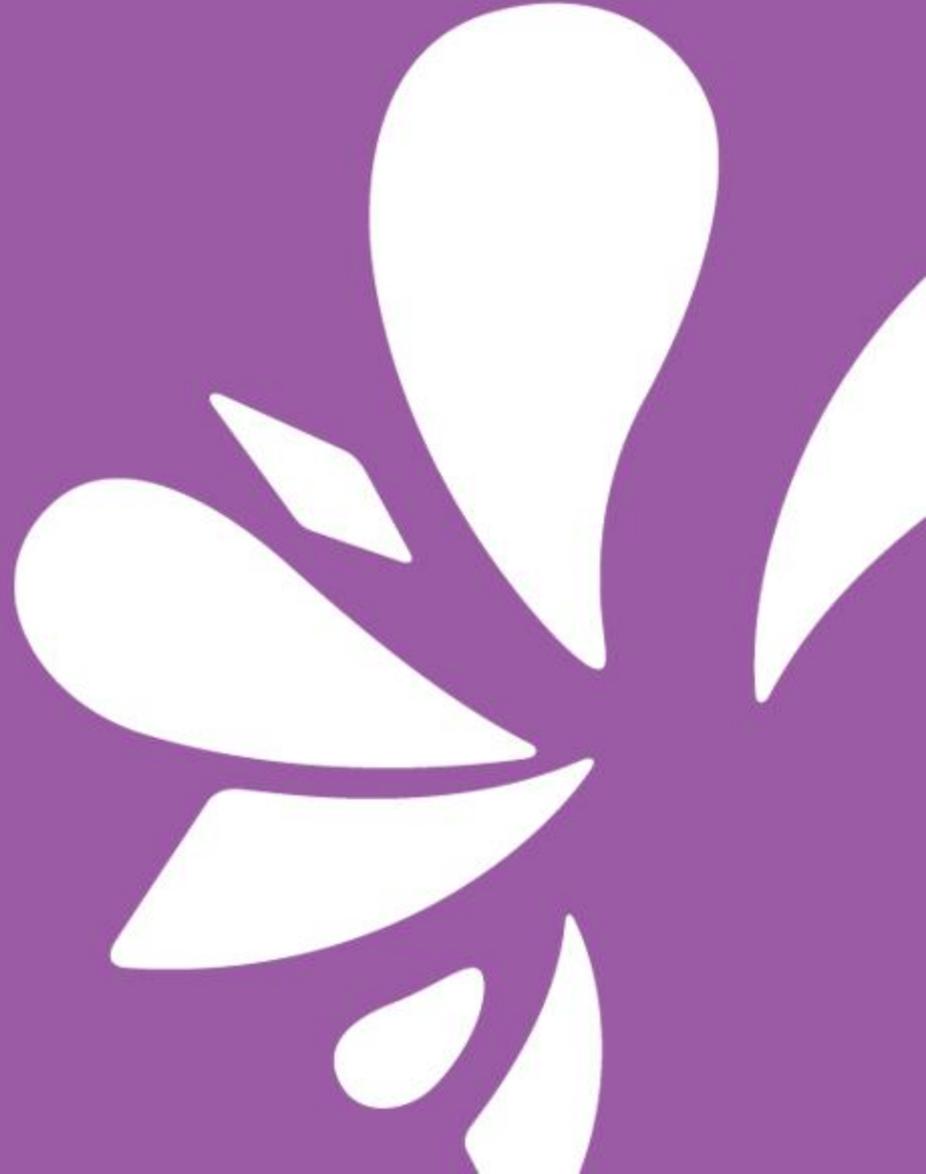
# Well-positioned to benefit from our virtuous cycle

- Revitalize our brands
- Increase marketing and sales excellence
- Deliver record cost savings

# Fueling a Virtuous Cycle

David Brearton

Executive Vice President  
Operations



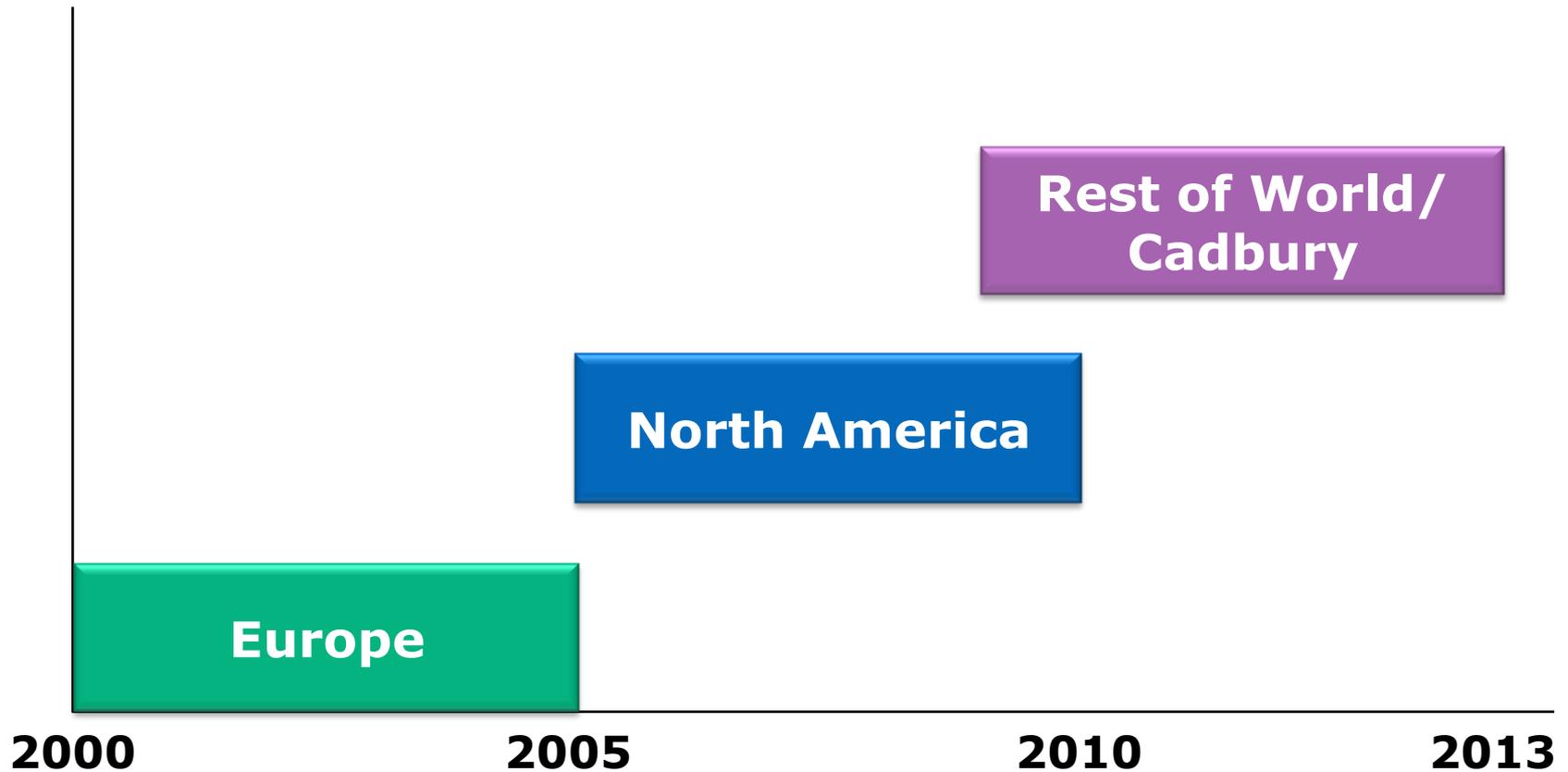
# Cost reductions feed a virtuous cycle



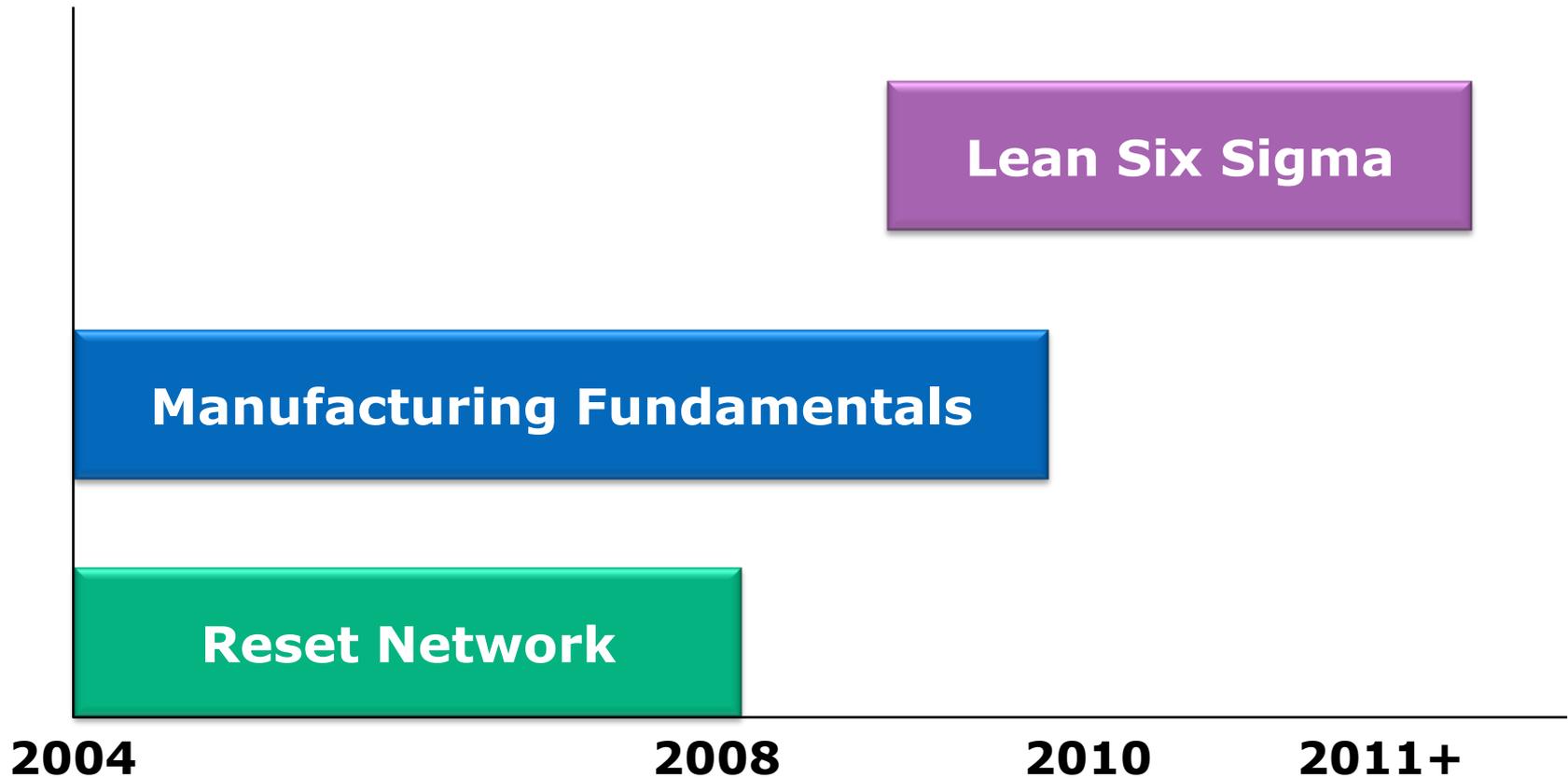
# Sustainable End-to-End Cost Management

- Integration synergies role
  - Fund revenue synergies
  - Drive ROI, earnings accretion on acquisition
- Ongoing savings are critical
  - Pricing alone will not cover all inflation
  - Still below optimal levels of brand support
  - Leaner organization is more nimble
- Need foundation, discipline for continuous improvement

# SAP is one foundation for cost reduction



# Manufacturing productivity built on solid foundation



# Lean Six Sigma tools step change our capabilities

## Example: Chips Ahoy! Line

**From**

**To**

~2.5

Sigma

~3.7

7%

Waste, Rework

2%

84%

OEE

89%

Capacity

+7%

**\$700K  
Savings**

Consumer Complaints

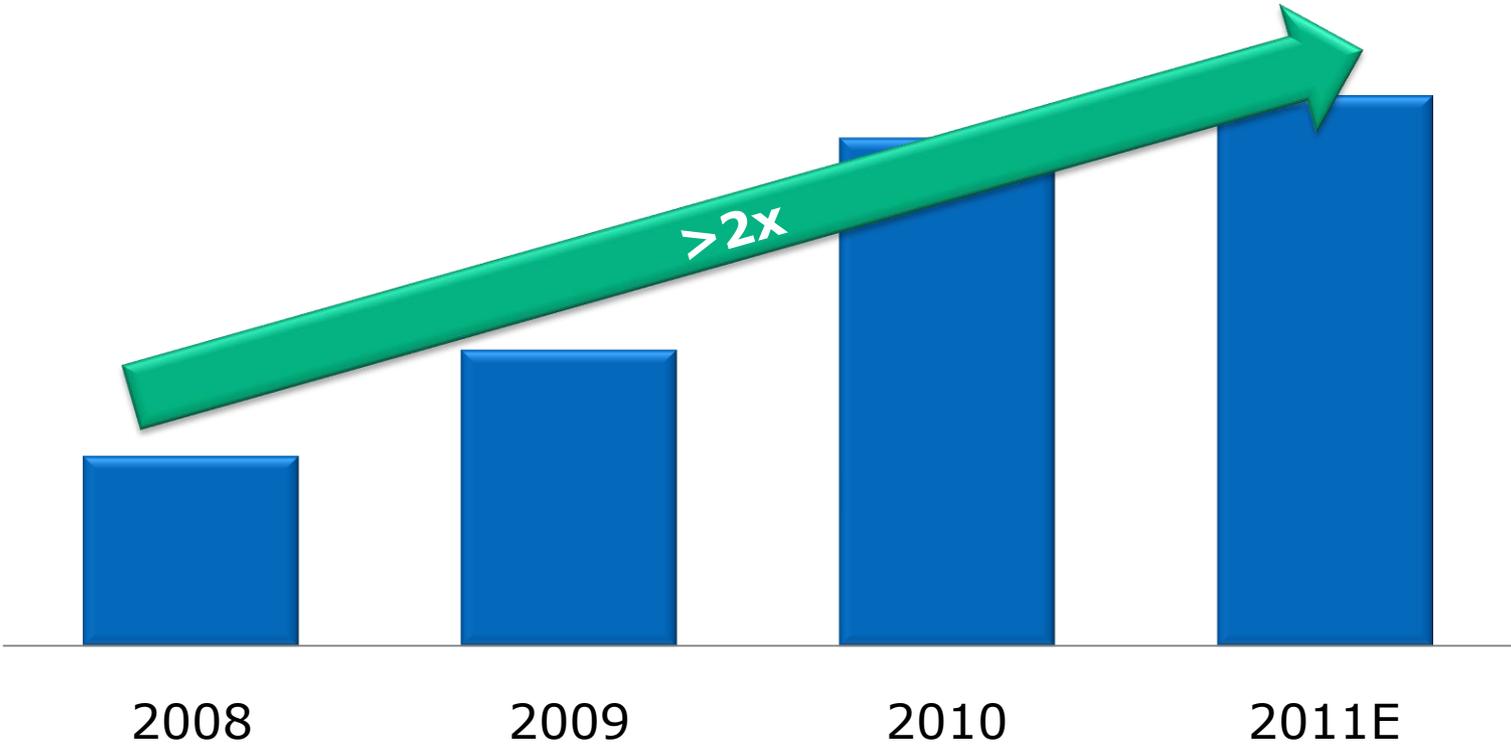
(37)%

# Expanding Lean Six Sigma

- Training hundreds of black belts and green belts
- Extending program outside factory walls
- Leadership support is critical

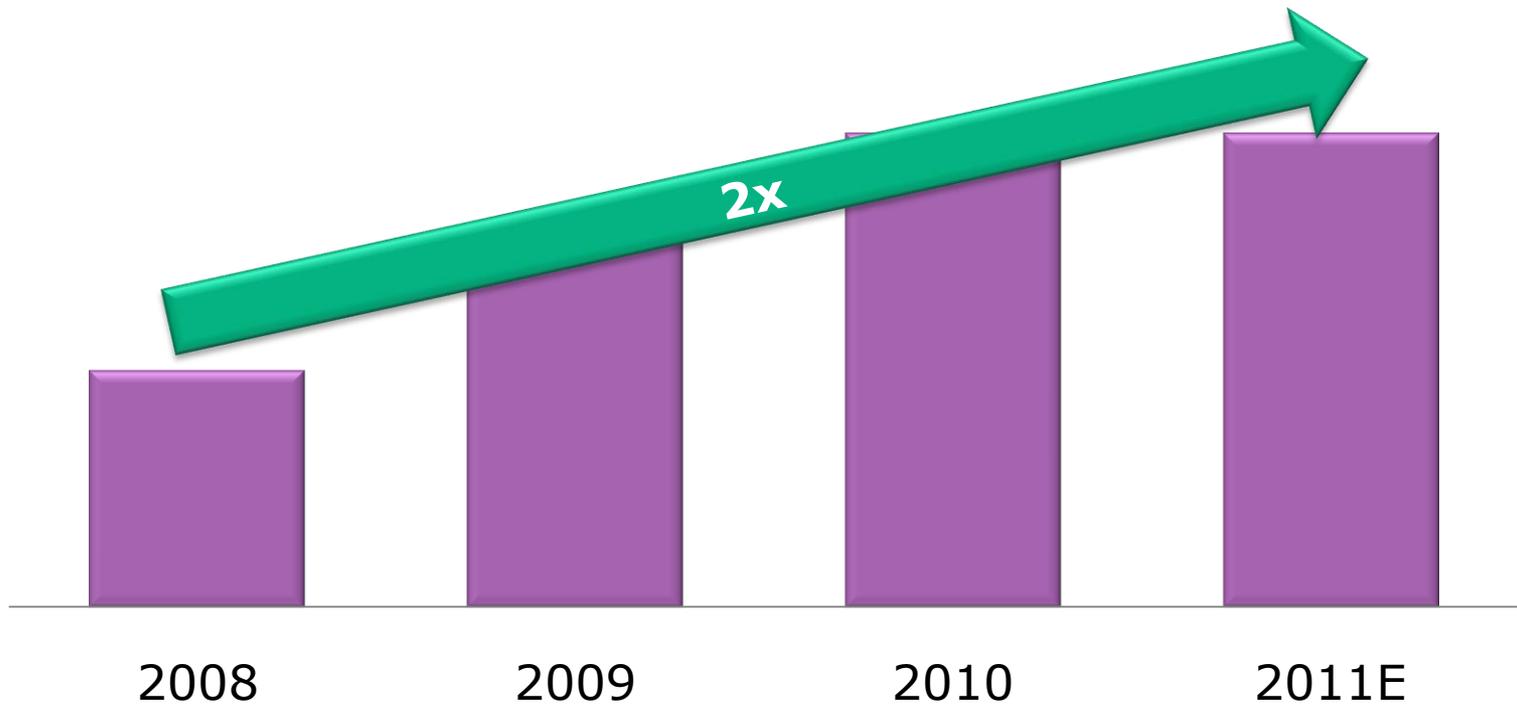
# Procurement savings to more than double

## Annual Procurement Savings



# Logistics savings to double

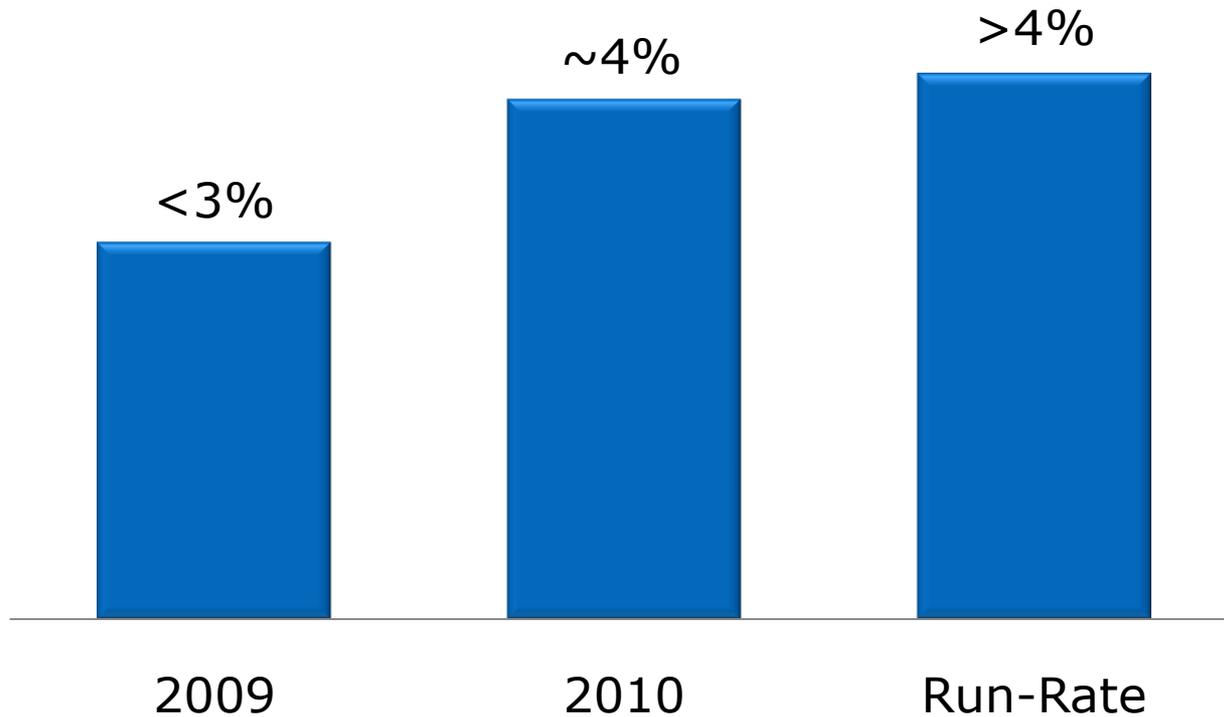
## Annual Logistics Productivity



# Stepping-up productivity savings

## **Productivity**

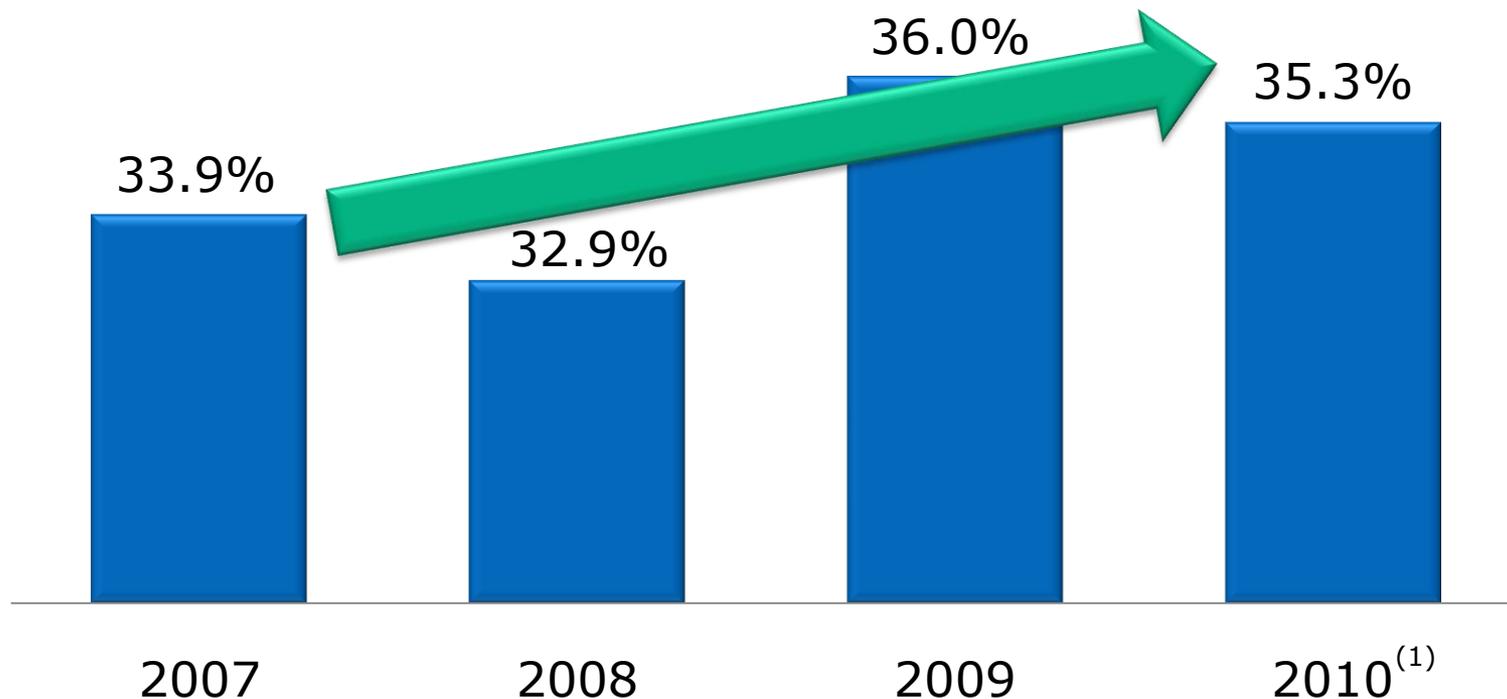
(% of Cost of Goods Sold)



# Gross margin trend improving despite volatile input costs

## **Kraft Foods Base Business**

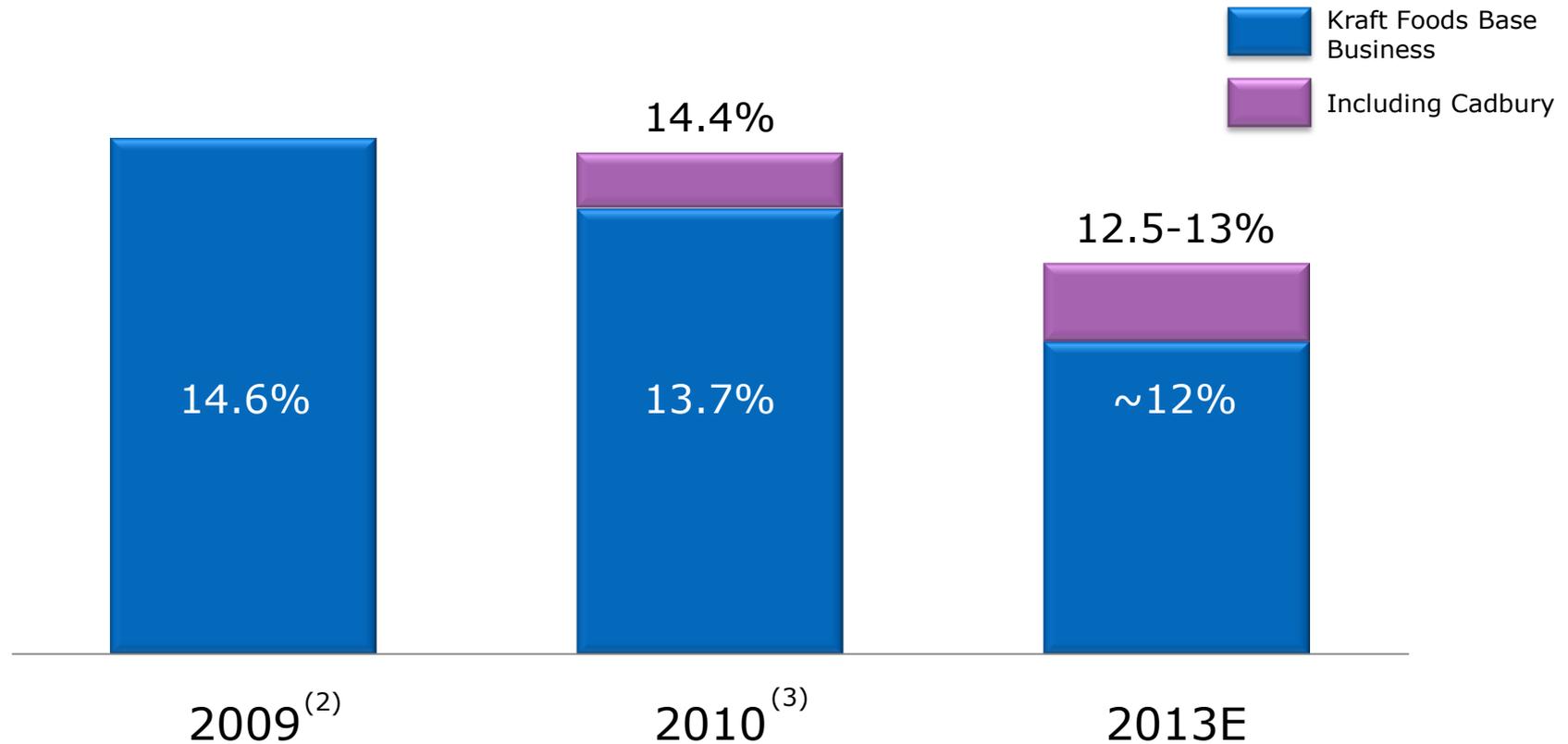
Gross Margin as % of Net Revenue



(1) Excludes integration and acquisition-related costs associated with the Cadbury acquisition. Reported Gross Margin was 36.4%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

# Overhead efficiency continues

## Overheads as % of Net Revenue<sup>(1)</sup>



(1) Excludes integration and acquisition-related costs associated with the Cadbury acquisition.

(2) Reported Overheads as a % of Net revenues for FY 2009 was 14.7%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

(3) Reported Overheads as a % of Net revenues for FY 2010 was 16.0%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

# End-to-End Cost Management

- Fuels virtuous cycle
- Continuous improvement mindset
- Solid foundation of best practices, tools and capabilities

# Delivering Top-Tier Financial Performance

Tim McLevish

Executive Vice President  
and CFO



# Building a virtuous cycle



# Building a virtuous cycle

**Focus on Power  
Brands**

+7% in 2010



**Drive Top-Tier Growth**

Combined Organic NR +3.5%

Base Kraft +3.7%<sup>(1)</sup>



(1) Reported Net Revenue growth was 27.0%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

# Improving performance versus the peer group

## Organic Revenue Growth (Fiscal Year)\*

2007		2008		2009		2010	
1 Nestlé	7.4%	1 ConAgra	9.5%	1 General Mills	8.5%	1 Danone	6.9%
2 PepsiCo	7.3%	2 Danone	8.4%	2 ConAgra	7.7%	2 Hershey	6.1%
3 Danone	7.2%	3 Nestlé	8.3%	3 Heinz	5.5%	3 Coca-Cola	6.0%
4 Coca-Cola	6.8%	4 General Mills	8.2%	4 Nestlé	4.1%	4 Nestlé	6.0%
5 Kellogg	5.4%	5 Heinz	6.9%	5 Coca-Cola	4.0%	5 General Mills	4.0%
<b>6 Kraft Foods</b>	<b>5.1%</b>	<b>6 Kraft Foods</b>	<b>6.7%</b>	6 Hershey	4.0%	<b>6 Kraft Foods</b>	<b>3.5/3.7%</b> <sup>(1)</sup>
7 Campbell	5.0%	7 PepsiCo	6.6%	7 PepsiCo	4.0%	7 PepsiCo	3.5%
8 General Mills	5.0%	8 Coca-Cola	5.7%	8 Danone	3.2%	8 Heinz	2.1%
9 Heinz	4.8%	9 Kellogg	5.4%	9 Campbell	3.0%	9 ConAgra	(0.8)%
10 ConAgra	4.7%	10 Sara Lee	4.6%	10 Kellogg	3.0%	10 Kellogg	(1.3)%
11 Sara Lee	3.6%	11 Hershey	3.4%	11 Sara Lee	2.7%	11 Campbell	(2.0)%
12 Hershey	(1.1)%	12 Campbell	3.0%	<b>12 Kraft Foods</b>	<b>1.5%</b>	12 Sara Lee	(2.8)%

\* Source: Thomson First Call.

(1) Reported Net Revenue growth was 27.0%; Combined Organic Net Revenue Growth was 3.5%; Kraft Foods Base Organic Net Revenue growth was 3.7%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

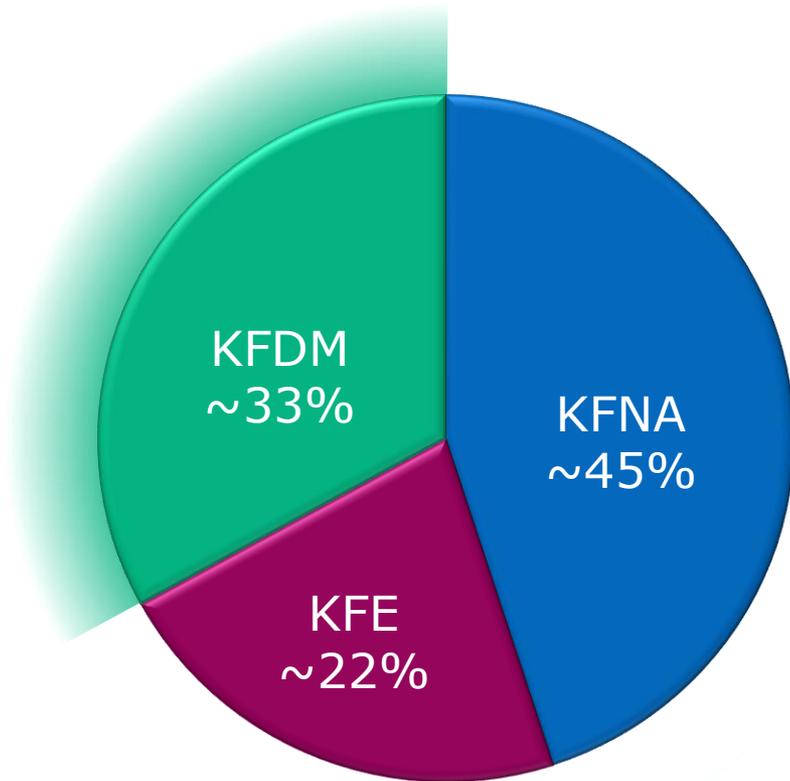


# Short-term: Revenue growth benefits from momentum, synergies

- Entering 2011 with broad-based momentum
- Targeting \$1 billion of revenue synergies over next three years
  - ~50 bps of organic growth in 2011
  - ~50-100 bps of organic growth in 2012

# Long-term: Revenue growth benefits from shift to Developing Markets

**2013E**



## **Long-Term Organic Revenue Growth Targets**

North America	3-4%
Europe	2-3%
Developing Markets	10%+
<b>Total Kraft Foods</b>	<b>5%+</b>

# Building a virtuous cycle

**Focus on Power Brands**  
+7% in 2010



**Drive Top-Tier Growth**  
Combined Organic NR +3.5%  
Base Kraft +3.7%<sup>(2)</sup>



**Reduce Costs<sup>(1)</sup>**  
Productivity  
~4% COGS

**Leverage Overheads<sup>(1)</sup>**  
Costs down (3)%<sup>(3)</sup>  
% of NR down (90)bps<sup>(4)</sup>



(1) Represents Kraft Foods base business only.

(2) Reported Net Revenue growth was 27.0%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

(3) Reported Overheads were up 38.4%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

(4) Reported Overheads as a % of Net Revenues increased 130 bps. See GAAP to Non-GAAP reconciliation at the end of this presentation.



# End-to-End Cost Management will accelerate margin expansion

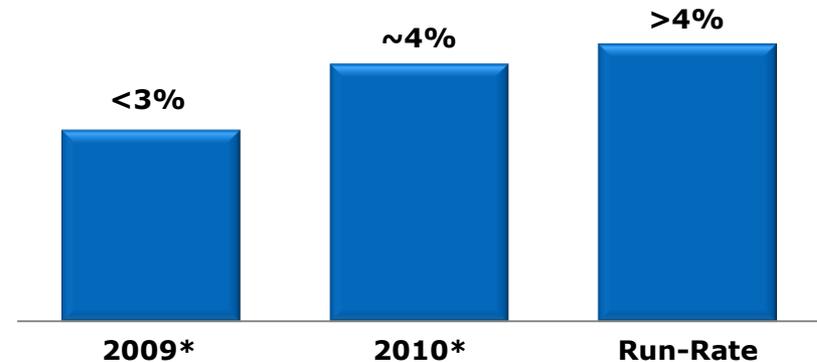
- Productivity

- Procurement
- Manufacturing
- Customer Service & Logistics

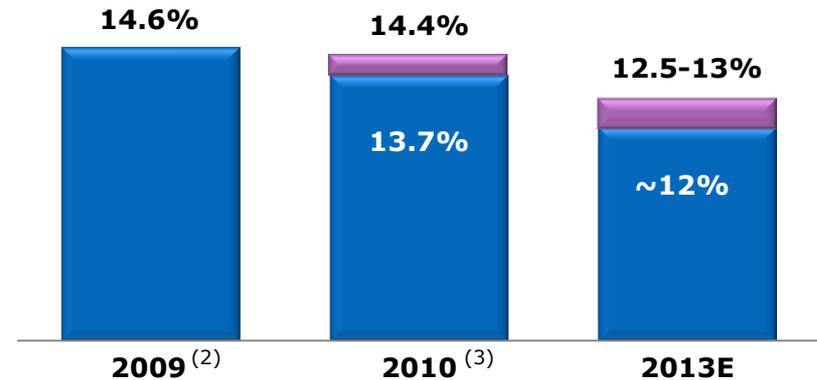
- Overhead Cost Reset

- North America: ZOG
- Europe: NOG
- Developing Markets: HOG

## Productivity % of COGS



## Overheads % of Net Revenue<sup>(1)</sup>



 Kraft Foods Base Business  
 Including Cadbury

\* Kraft Foods Base Business only

(1) Excludes integration and acquisition-related costs associated with the Cadbury acquisition.

(2) Reported Overheads as a % of Net revenues for FY 2009 was 14.7%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

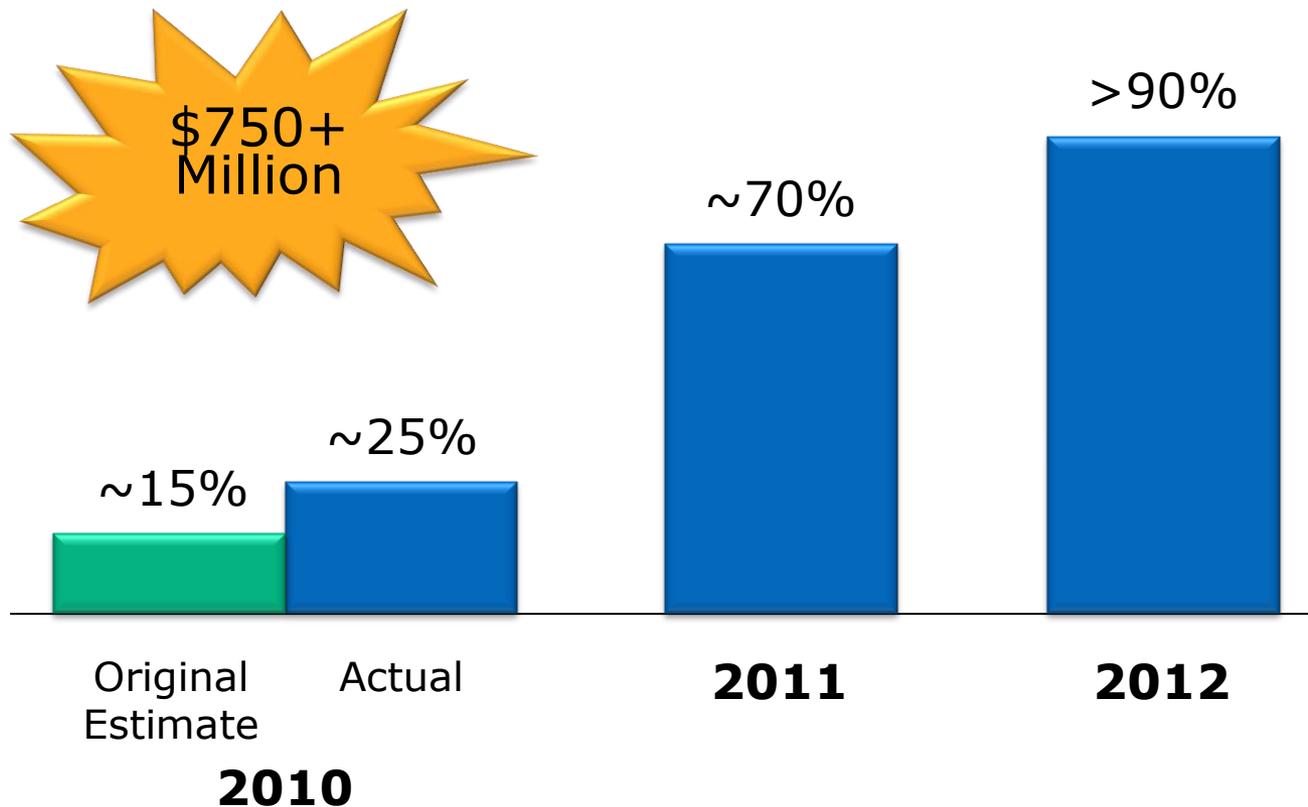
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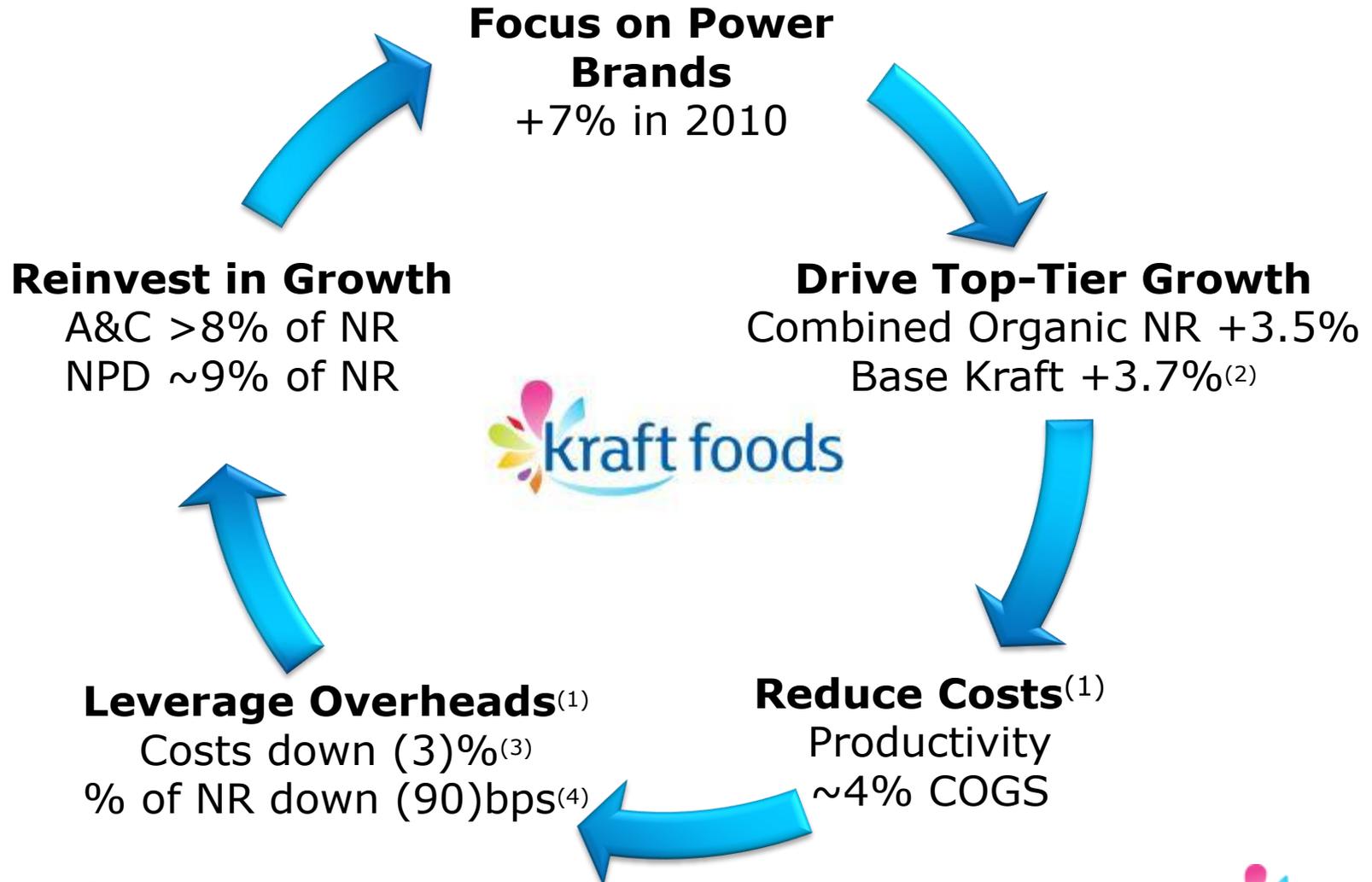
# Synergies will further expand profit margins

## **Cost Synergies**

*(Cumulative P&L Impact)*



# Building a virtuous cycle



(1) Represents Kraft Foods base business only.

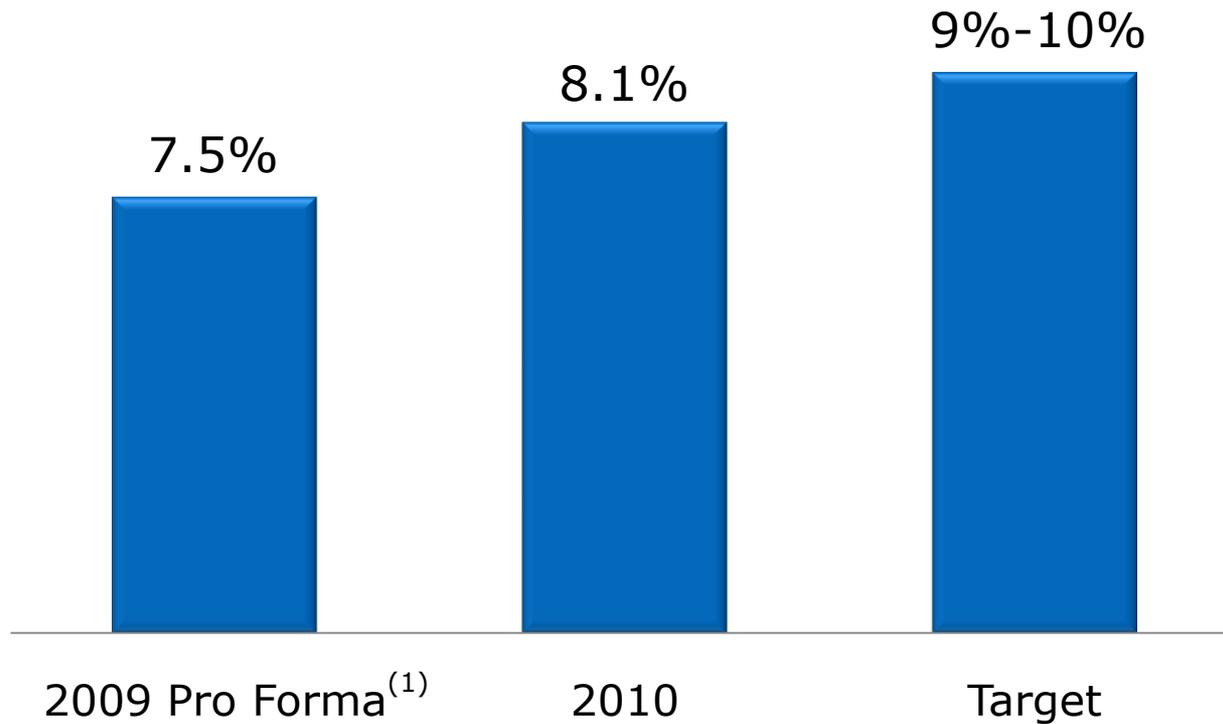
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# Investments in brand building will increase

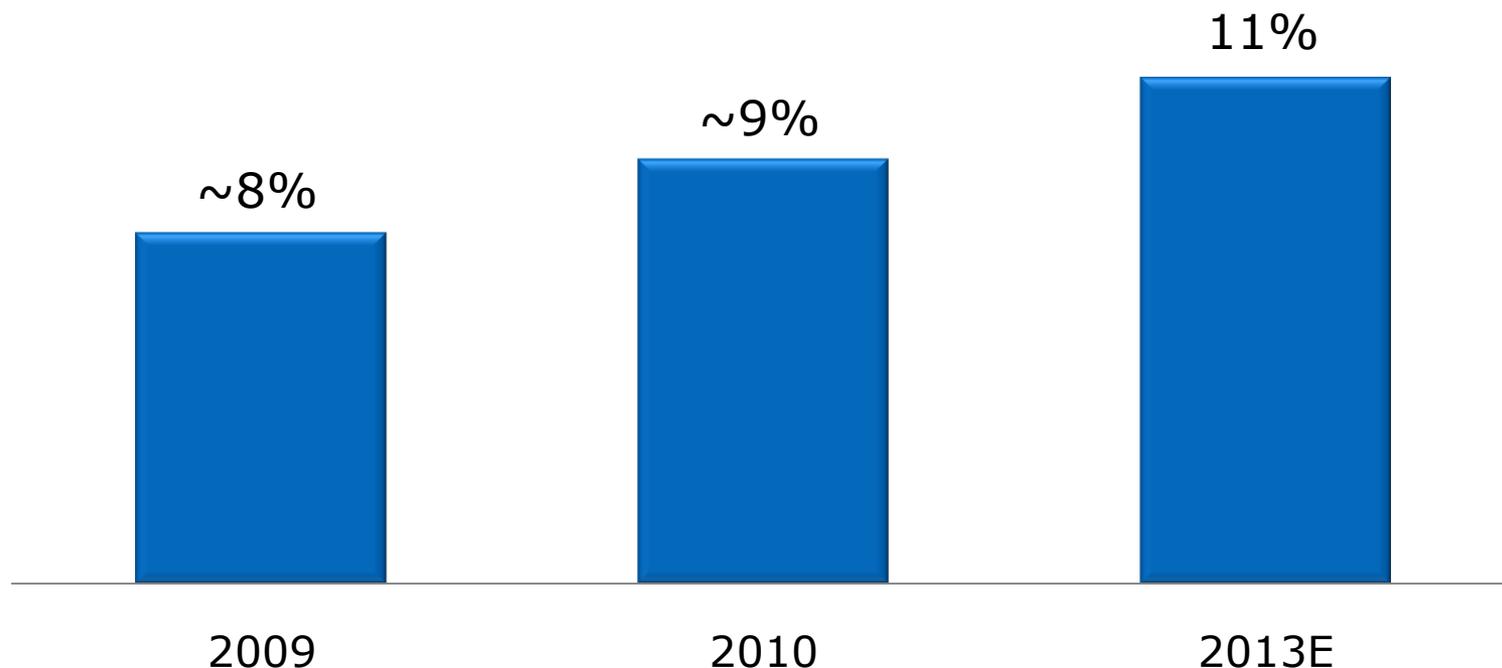
## A&C as a Percentage of Net Revenue



(1) Pro Forma for the Cadbury acquisition.

# Stepping up growth from new products

## New Product Development as % of Net Revenue<sup>(1)</sup>



(1) 3-year trailing basis.

(2) Pro forma combined Kraft Foods base business and Cadbury.

# Targeting top-tier margins

## 2010 Operating Income Margins (Fiscal Year)<sup>(1)</sup>

1	Coca-Cola	27.4%
2	General Mills	17.8%
3	Hershey	17.7%
4	Campbell	17.7%
5	PepsiCo	17.1%
6	Kellogg	16.3%
<hr style="border-top: 1px dashed blue;"/>		
7	Danone	15.2%
8	Heinz	15.1%
<b>9</b>	<b>Kraft Foods<sup>(2)</sup></b>	<b>13.4%</b>
10	Nestlé	13.4%
11	ConAgra	10.8%
12	Sara Lee	8.9%



(1) Source: Company reports.

(2) Excludes integration and acquisition-related costs associated with the Cadbury acquisition. Reported Operating Income Margin was 11.5%. See GAAP to Non-GAAP reconciliation at the end of this presentation.

# Poised to improve EPS growth versus peers

## Operating EPS Growth<sup>(1)</sup>

2007		2008		2009		2010	
1	Nestlé 17.3%	1	ConAgra 32.9%	1	Hershey 15.4%	1	Hershey 17.5%
2	Coca-Cola 13.9%	2	Sara Lee 19.3%	2	General Mills 13.1%	2	General Mills 15.6%
3	PepsiCo 12.7%	3	Coca-Cola 16.7%	3	Heinz 10.3%	3	ConAgra 14.5%
4	Kellogg 10.0%	4	General Mills 10.7%	4	<b>Kraft Foods 8.0%</b>	4	Coca-Cola 14.1%
5	Heinz 9.7%	5	Heinz 10.5%	5	Campbell 6.2%	5	PepsiCo 11.3%
6	Campbell 7.1%	6	PepsiCo 8.9%	6	Kellogg 5.7%	6	Campbell 11.3%
7	Danone 6.2%	7	Kellogg 8.3%	7	PepsiCo 0.8%	7	Nestlé 7.4%
8	General Mills 6.0%	8	Campbell 7.2%	8	Nestlé 0.7%	8	Danone 5.4%
9	ConAgra 3.6%	9	Nestlé 4.0%	9	Danone (0.8)%	9	<b>Kraft Foods 4.7%</b> <sup>(2)</sup>
10	<b>Kraft Foods (6.2)%</b>	10	<b>Kraft Foods 3.3%</b>	10	Coca-Cola (2.9)%	10	Kellogg 4.4%
11	Hershey (12.2)%	11	Danone 1.2%	11	Sara Lee (15.2)%	11	Heinz (1.0)%
12	Sara Lee (30.3)%	12	Hershey (9.6)%	12	ConAgra (20.0)%	12	Sara Lee (9.5)%

(1) Source: Thomson First Call.

(2) Represents Operating EPS. Reported Diluted EPS declined 23.8%. See GAAP to Non-GAAP reconciliation at the end of this presentation.



# Strategies will deliver top-tier growth in 2011 ...

**Delight Global Snacks Consumers**

**Unleash the Power of Our Iconic Heritage Brands**

**Create a Performance-Driven, Values-Led Organization**

- **Organic Revenue growth 5%+**
- **Mid-Teens OI Margins**
- **EPS growth 11%-13%**

# ... and a step-up in growth over the long term

**Delight Global  
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**Unleash the  
Power of Our  
Iconic Heritage  
Brands**

**Create a Performance-Driven,  
Values-Led Organization**

- **Organic Revenue growth 5%+**
- **Mid-to-High Teens OI Margins**
- **EPS growth 9%-11%**

# Virtuous cycle will deliver sustainable top-tier growth

