

A Krafty Combination

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Pershing Square Capital Management, L.P.

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Kraft Foods



Recent stock price: \$28

4% dividend yield

PF Kraft Market Cap: ~\$49bn

- ▶ **World's 2nd largest food company**
- ▶ **Recently acquired Cadbury (closing pending) at an attractive price**
- ▶ **We believe the transaction will be transformational**
 - Significantly improves Kraft's business quality and organic growth profile
- ▶ **Investment thesis**
 - Attractively priced business standalone...
 - ...with a transformative event, catalyzing margin improvement and leading to earnings accretion and multiple re-rating
 - **“Pro Forma Kraft/Cadbury” (or “PF Kraft”) currently trades at under 10x 2012 EPS**

Assumes GBP / USD= 1.60 throughout presentation

Cadbury: Great Asset at a
Good Price

Cadbury is an Attractive Asset

One of the great businesses of the world

- ✓ Confectionary is a resilient food category
- ✓ Good pricing power, very limited private label threat
- ✓ Attractive competitive “moat”
- ✓ Strong long-term global growth
- ✓ Iconic brands (Dentyne, Trident, Cadbury, Halls)



Cadbury is extremely well positioned in emerging markets

- ✓ >40% of sales in fast growing emerging markets
- ✓ Distribution in emerging markets is difficult to greenfield
- ✓ As a 186-year-old UK company, Cadbury has greatly benefited from UK's colonial presence in parts of the emerging world

Cadbury is Currently Under-Earning

- ▶ **Cadbury's current EBIT margins are only ~13.5%**

- ▶ **Given the mix of categories (chocolate, gum and candy), we believe appropriate EBIT margins for CBRV should be in the mid-to-high teens**

- ▶ **CBRV management has invested significantly in the company**

- Increased marketing spend and built new R&D facilities
- New plants in low-cost labor countries (only now coming on line) which should cut enormous waste out of the supply chain
- Developed technologies which have not yet benefited the entire global portfolio (center-filled gum, candy-layered gum)
- Recently launched core brands in “white spaces” (i.e., Trident in the U.K.)

- ▶ **These investments are currently pressuring Cadbury margins, but will lead to margin improvement and strong organic growth**

- ▶ **Kraft should be the beneficiary of these investments, given the timing of its hostile takeover**

Kraft is Paying an Attractive Price for Cadbury

Based on the headline offer of 8.40 GBP, Kraft is paying 14x 2009E EPS and under 12x 2011E EPS for Cadbury, inclusive of \$675mm of run-rate synergies (less than 7% of CBRY sales)

	2009	2010e	2011e
Run-Rate Synergies (\$675m)			
EV / EBITDA	9.2 x	8.7 x	8.2 x
EV / EBIT	10.9 x	10.3 x	9.6 x
P/E	14.1 x	13.0 x	11.8 x

CBRY EBIT Margins go to 15%



Kraft is acquiring Cadbury while Cadbury is still under-earning and only beginning to see its margins expand given recent investments in infrastructure, R&D and product development

Kraft Standalone: Significant
Margin Opportunity

Kraft (Standalone)

United States: ~50% rev

Snacks (cookies, crackers)



Beverages (coffee, drinks)



Cheese



Grocery (mac & cheese, dressing, desserts, condiments)



Meals (cold cuts, lunchables)



Canada⁽¹⁾: ~10% Rev

Europe: ~20% Rev



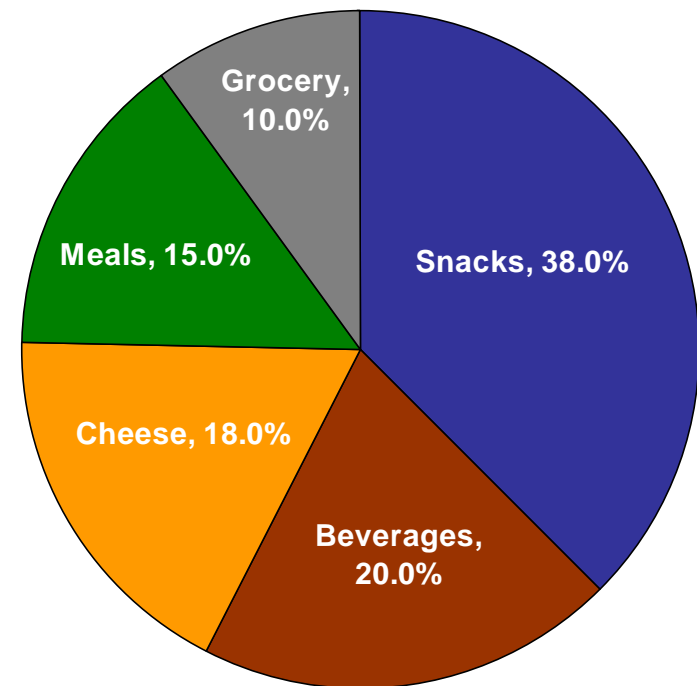
Developing Markets: ~20%



1) Includes N.A. Foodservice revenues

Kraft Standalone: More Attractive Than Perceived

- ▶ ~40% of portfolio is Snacks (cookies, crackers, chocolate)
- ▶ More than 80% of portfolio is from #1 share positions
 - Strong scale in US
- ▶ ~40% of revenue outside North America
- ▶ More than 50% from categories where its marketplace position is twice the size of nearest competitor
- ▶ Strong DSD distribution capabilities creates a significant competitive advantage versus other U.S. food companies



Note: Includes the N.A. Frozen Pizza business which was sold to Nestle

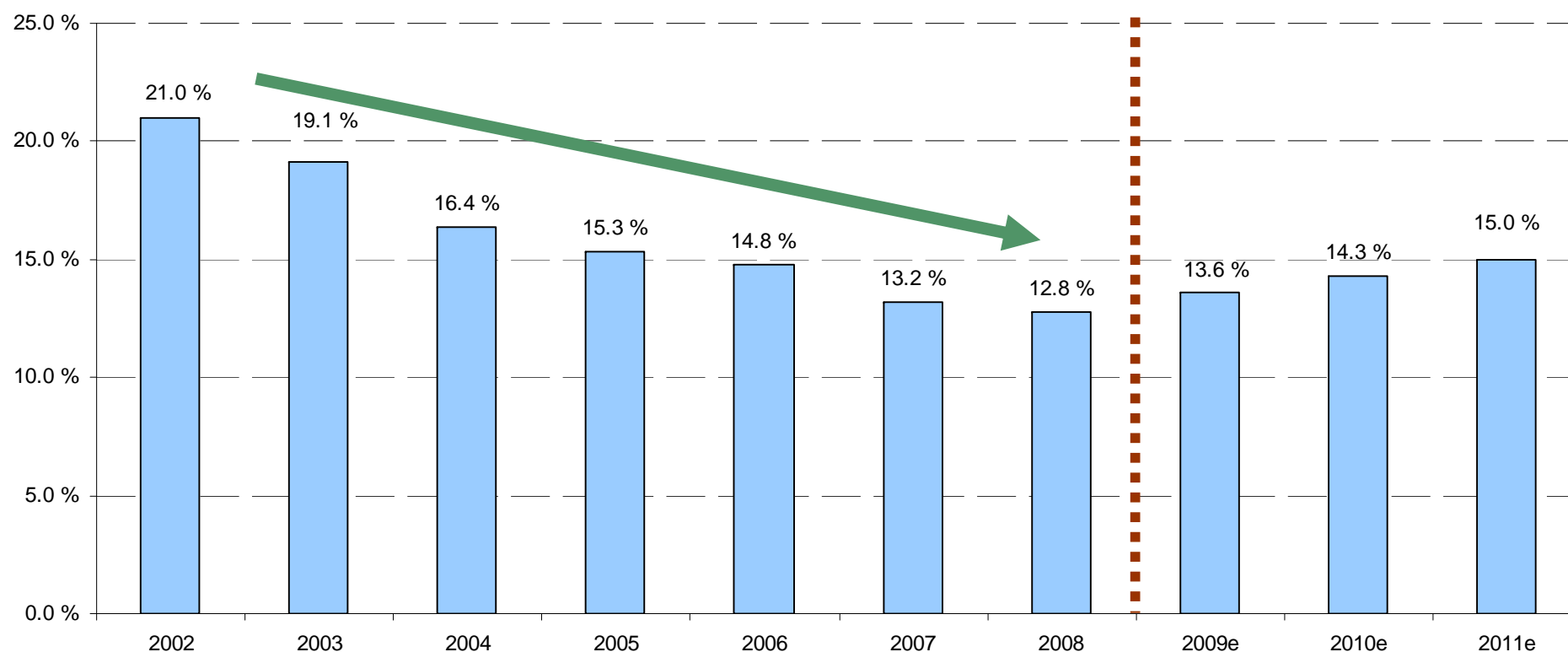
Kraft: Turnaround Opportunity

- ▶ **Yes, Kraft has been a turnaround story for years...**
 - In 2004 KFT started a major restructuring program focused on decentralizing its business and reducing overhead
 - Despite cost cuts, severe commodity inflation and the need for significant “catch up” R&D/marketing spend pressured margins down
 - Private brands pressured KFT’s pricing in many categories eroding margins even further

- ▶ **KFT today: Pershing Square view — Turnaround is achievable**
 - Fixing a company like KFT (many brands, regions) often takes five+ years
 - Witness Cadbury, Unilever—only now seeing impact of several years of restructuring
 - Investors have lost patience —hence why the turnaround is discounted in the stock price
 - Not just about cost cuts, but innovating and improving the brands through R&D and marketing
 - New CEO has made smart decisions regarding brand investment and portfolio M&A
 - Brands are better positioned today, given improved price/value equation and improved product quality
 - Significant opportunities still remain in COGS and overhead—however some of it should be reinvested in the business to strengthen brands
 - Clearly, MARGINS SHOULD BE MUCH HIGHER—we believe it’s a matter of time...

Historical EBIT Margins

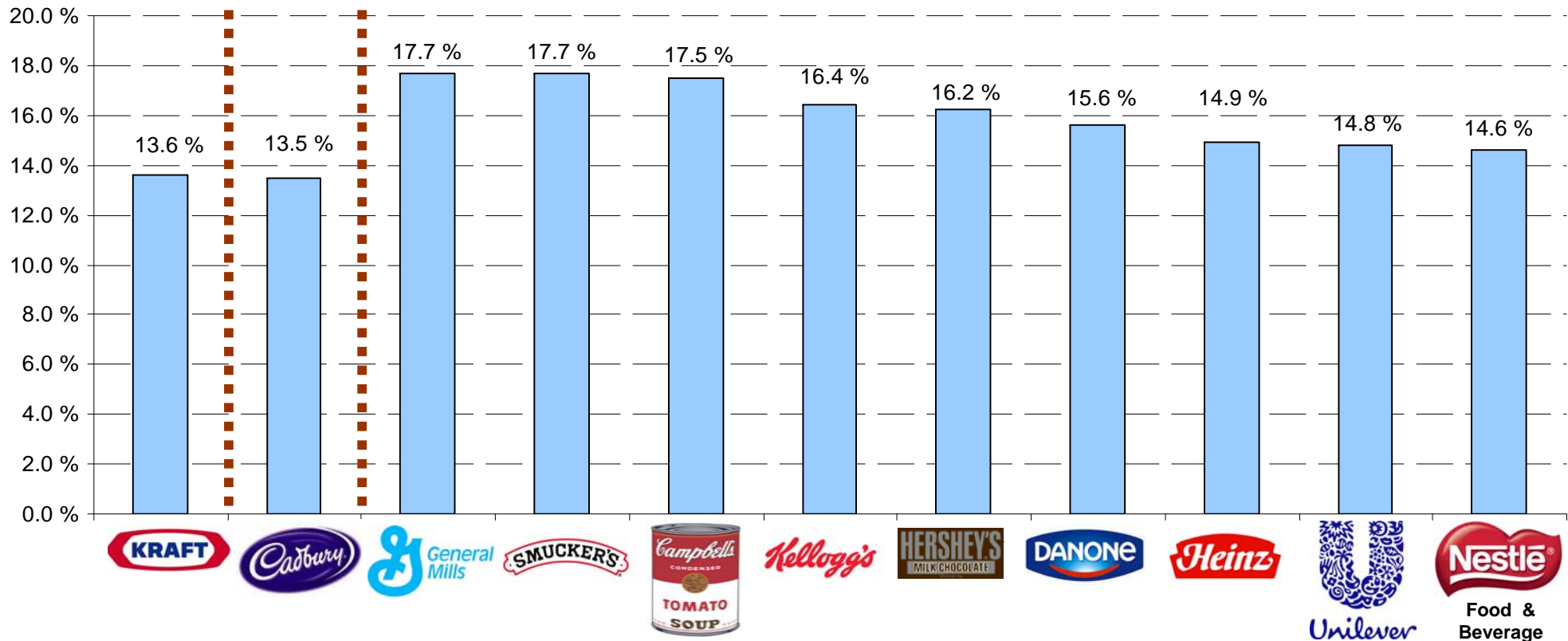
Kraft's EBIT margins have dramatically fallen from 21% in '02 to a low of 12.8% in '08 due to misplaced investments, lack of marketing, pricing erosion, required catch-up R&D and commodity headwinds



Kraft's target is for mid-teen (~15%) margins by 2011, driven by improved product quality/value, mix shift, supply chain efficiencies, SKU rationalization, and overhead productivity efficiencies. We believe this goal is achievable

EBIT Margins Relative to Comparables

Kraft currently has low EBIT margins relative to its peers, despite being the largest food company in North America and participating in high gross margin categories



Note: Kraft, Cadbury and Nestle are based on Pershing estimates for 2009, except Nestle, which is LTM. Nestle data is food and beverage only (ex-Alcon) adjusted to deduct trade promotions from revenue (assumed 12% of revenue) to be comparable. Campbell, Heinz, Unilever, Danone and Kellogg's are per Wall Street research and are LTM, except Unilever, Danone, and Kellogg's which are 2009e. General Mills is per company filings and excludes mark-to-market gains / losses on commodities derivatives and is LTM. J.M. Smucker is PF for Folger's, so 2010e margin used, per Wall Street research.

Appropriate EBIT Margins Based on Categories

Based on our global category analysis, KFT should have EBIT margins in the mid-to-high teens

We believe that Snacks and Beverages are the categories where KFT is materially under-earning

Global category	Est. % of Global Revenues	Estimate for Appropriate EBIT margin
Snacks <i>(see memo)</i>	38%	16%
Beverages <i>(see memo)</i>	20%	20%
Meals ⁽¹⁾	15%	11%
Cheese ⁽²⁾	18%	16%
Grocery ⁽³⁾	10%	32%
Less corporate		(0.8)%
Appropriate KFT EBIT Margin		17%
KFT current 2009E EBIT Margin ⁽¹⁾		13.6%

Memo:

	Est. Revenue Mix	Appropriate EBIT Margin	Reference Margin
Snacks			
Cookies / crackers	75%	17%	Kellogg's consolidated margins (including G&A)
European Chocolate	25%	15%	Nestle confectionary (GAAP Adjusted)
Est. Margin		16.5%	
Beverages			
Coffee	50%	22%	Folgers (pre G&A, before Smuckers acquisition)
RTD	25%	12%	Typical RTD
Powders	25%	35%	Dr. Pepper concentrate / Coca Cola consolidated
	Based on peers	23%	
Discount for KFT		20%	

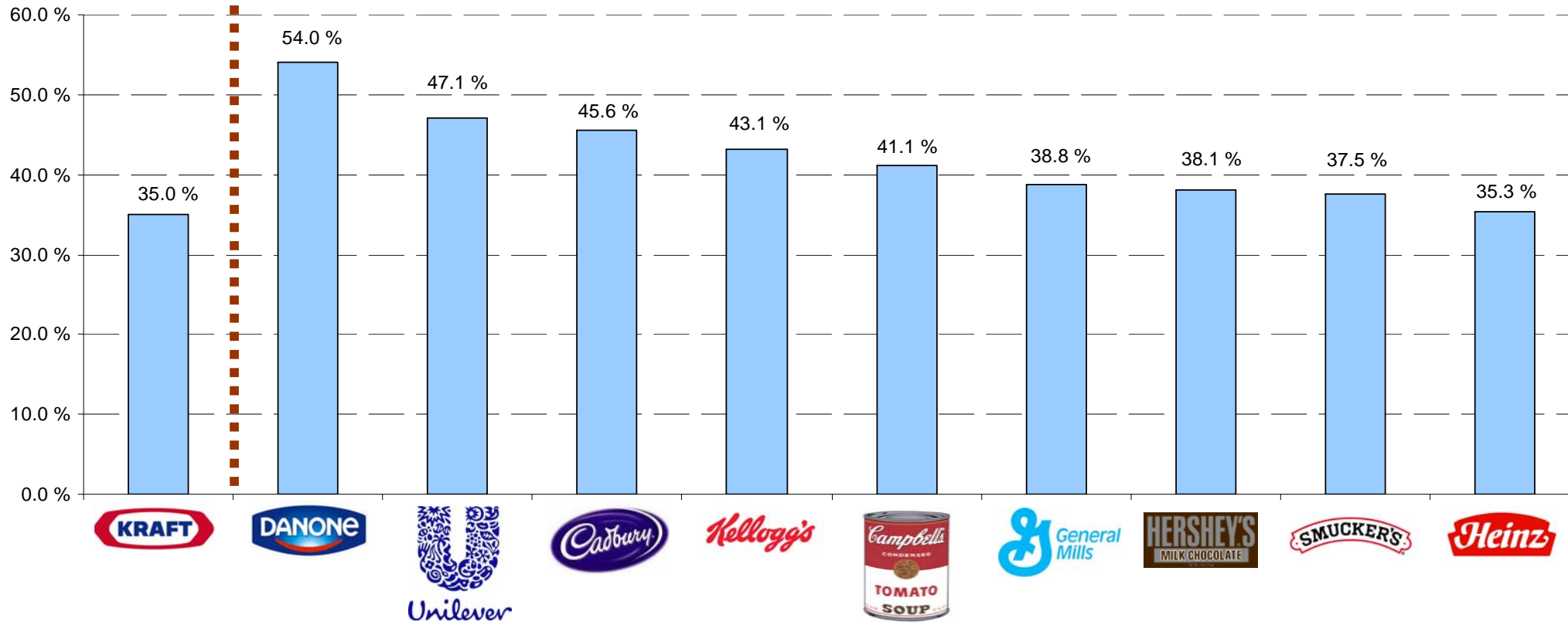
(1) Includes NA Frozen Pizza. Based on current EBIT margins

(2) Based on US Cheese segment 3-year average

(3) Based on US Grocery segment 3-year average

Opportunity: Gross Margins Are Too Low

Kraft currently has the lowest gross margins among its peer group, despite having #1 market share in 80% of its categories and participating in high margin categories like cookies, crackers, confectionary, beverages and condiments



Note: Kraft and Cadbury are based on Pershing estimates for 2009e. Campbell, Heinz, Unilever, Danone and Kellogg's are per Wall Street research and are LTM, except Unilever, Danone, and Kellogg's which are 2009e. General Mills is per company filings and excludes mark-to-market gains / losses on commodities derivatives and is LTM. J.M. Smucker is PF for Folger's, so 2010e used, per Wall Street research.

KFT Gross Margins Should be Closer to 40%

	Appropriate Gross Margin	% of Revenue		% Market Share
		Segment	Total	
U.S. Beverages			8 %	
Powdered	65%	25%		52%
Coffee	35%	50%		29%
Ready to Drink	20%	25%		59%
Total Segment	38%	100%		
U.S. Cheese			9 %	
Sandwich, Recipe & Grated	30%	45%		30-40%
Natural	30%	20%		22%
Cultured & Snacking	30%	15%		25%
Cream Cheese	30%	20%		66%
Total Segment	30%	100%		
U.S. Convenient Meals			11 %	
Cold Cuts & Hot Dogs	30%	40%		30%
Bacon, Boca & Pickles	30%	15%		20%
Meal Combos	45%	15%		91%
Pizza	40%	30%		40%
Total Segment	35%	100%		
U.S. Grocery			9 %	
Dressings	40%	30%		35%
Desserts	45%	20%		65%
Mac & Cheese	40%	20%		
Condiments and Other	50%	30%		
Total Segment	44%	100%		
U.S. Snacks			13 %	
Biscuits	45%	80%		
Bars & Nuts	40%	20%		
Total Segment	44%	100%		
Canada & N.A. Foodservice	28%		10 %	
Total Segment	28%			
Europe			21 %	
Biscuits	40%	25%		22%
Chocolate	40%	25%		13%
Local Categories	40%	25%		
Cheese	30%	12%		40%
Coffee	35%	12%		22%
Total Segment	38%			
Emerging Markets	40%		19 %	

Based on our estimates for appropriate gross margins in each of Kraft's food categories, Kraft should have gross margins in the 37% - 40% range

Kraft's 2009E gross margin is only 35%, about 300bps below appropriate levels

Kraft Appropriate GM

38%

Observations: Europe EBIT Margins Too Low

On a regional basis, Kraft's Europe business has been materially under-earning, despite an attractive portfolio of food products. Increased scale from the 2007 LU acquisition should help improve margins

	<u>% of EBIT</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>LTM</u>
North America	69 %	17.5 %	16.1 %	15.7 %	16.8 %
<i>Y-o-Y Change (bps)</i>			(136)	(47)	110
Europe	14 %	10.8 %	8.8 %	8.7 %	9.4 %
<i>Y-o-Y Change (bps)</i>			(195)	(10)	67
Developing Markets	17 %	11.5 %	10.5 %	12.2 %	12.8 %
<i>Y-o-Y Change (bps)</i>			(93)	165	59
Segment EBIT		15.4 %	13.8 %	13.4 %	14.4 %
<i>Y-o-Y Change (bps)</i>			(160)	(40)	105
Less: Corporate Costs		(0.6)%	(0.6)%	(0.6)%	(1.0)%
<i>Y-o-Y Change (bps)</i>			(2)	(1)	(40)
EBIT		14.8 %	13.2 %	12.8 %	13.4 %
<i>Y-o-Y Change (bps)</i>			(162)	(41)	65

Opportunity

Opportunity: Europe EBIT Margins

KFT's Europe segment participates in higher margin categories such as biscuits (cookies), chocolate, and coffee. European EBIT margins should be in the 13%-15% range. Fixing this business alone could lead to ~100bps of total margin expansion for the company

~65% of revenues come from generally mid-to-high teens EBIT margin categories



European Segment Food Category	Est. Revenue Mix	Attractive Margin?
Europe		
Biscuits	25%	Yes
Chocolate	25%	Yes
Local Categories	25%	Unclear
Coffee	13%	Yes
Cheese	13%	No
Total Segment	100%	

Illustrative Opportunity:

LTM Kraft Europe EBIT Margins	9.4%
Increase in Europe margins to 14%	460bps
Kraft Europe as % of Total KFT Revenues	21.4%
Increase in KFT Consolidated EBIT Margins	98bps



Margin Opportunity: Adding it Up

We believe that ~15% EBIT margins are easily achievable for Kraft even in a world where commodity prices spike ahead of organic pricing growth

Opportunity:	Commentary	
2009E EBIT Margin	13.6%	
COGS productivity ⁽¹⁾	260bps	SKU Rationalization, mix, productivity increase
G&A / overhead savings	<u>150bps</u>	Predominantly from European business overhead cuts
EBIT margin improvement potential	17.7%	
Less: Incremental marketing spend	-100bps	~8% of sales as A&P spend, at high end of big cap food group
Less: Commodity cushion	<u>-170bps</u>	Commodity increases of ~4% that are not offset by price
2011 EBIT Margin	15.0%	

(1) Assumes 4% COGS productivity, based on Kraft management guidance.

Pro Forma KFT + Cadbury:
A Great Company

Pro Forma Kraft is a Great Company and Stock

The new Kraft is a better company than the old Kraft

- ▶ Higher organic growth profile
- ▶ Improved category mix and overall business quality
- ▶ Increased emerging markets scale and distribution
- ▶ Improved access to instant consumption channels

Many opportunities to significantly increase earnings

- ▶ Margin improvement opportunity at both Kraft and Cadbury
 - Both companies materially under-earning with EBIT margins at ~13.5%, far below peers
- ▶ \$675mm of stated cost synergies (over 10% of PF Kraft's 2009 EBIT)
- ▶ Strong revenue synergies (mgmt has not yet stated a target)
- ▶ Lower effective tax rate

PF Kraft: Leading Global Confectionary Business

PF KFT would be the world's leading confectionary business by total confectionary marketplace position

PF Kraft: Strong Stable of Confectionary Brands



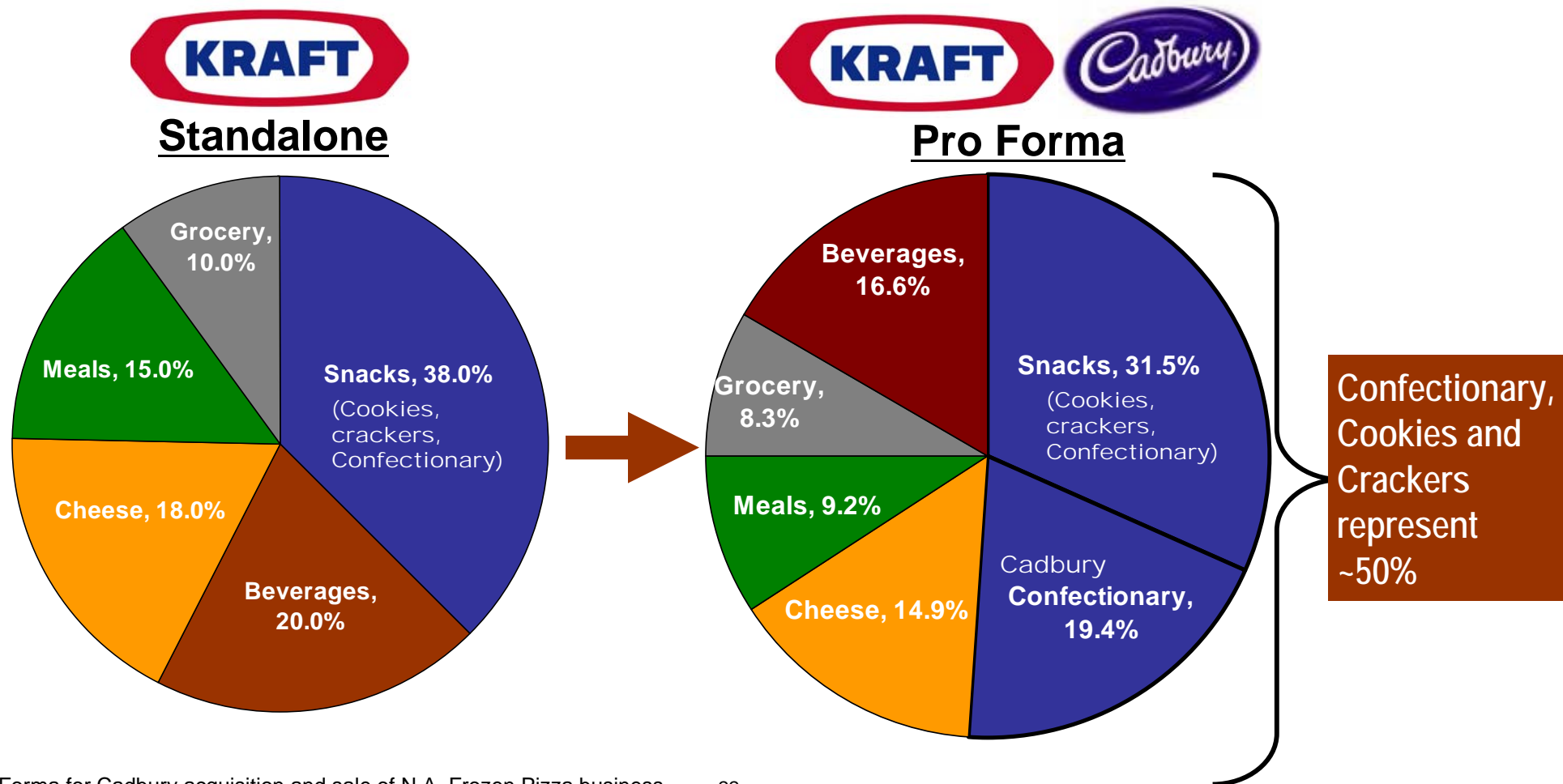
Global Confectionary Market Shares, 2008

	Total	Choc	Sugar	Gum
1 Kraft / Cadbury	14.9%	15.5%	7.7%	29.0%
2 Mars / Wrigley	14.5%	14.6%	5.0%	35.5%
3 Nestlé	7.9%	12.8%	2.7%	0.1%
4 Hershey	4.6%	6.7%	2.6%	0.6%
5 Ferrero	4.5%	7.4%	1.5%	-
6 Perfetti	3.0%	-	6.4%	6.8%
7 Lindt & Sprüngli	2.0%	3.6%	-	-
8 Lotte Group	1.6%	1.0%	0.6%	6.2%

Source: Bernstein Research, Kraft company presentation.

PF Kraft: Improved Business Quality

Over 50% of PF Kraft's sales will be comprised of Confectionary, Cookies and Crackers – all high quality, branded food categories



Confectionary, Cookies and Crackers

Confectionary, cookies and crackers are great food businesses



▶ Low private branding in developed markets

- Gum: store brands are virtually non-existent ⁽¹⁾
- Chocolate: ~5% of category = store brands ⁽¹⁾
- Cookies and crackers: ~10% = store brands ⁽¹⁾



▶ Strong emerging markets potential

- High branded products with broad global appeal particularly to children/young folks
- Easily shipped, generally low spoilage
- Cheap and affordable “western” treats



▶ High gross margins

1) Based on US private brand share estimates. Cookies have higher private brand reach at around 15% of sales and crackers have lower reach at around 7% of sales.

Confectionary, Cookies and Crackers (cont'd)

Confectionary, cookies and crackers are great food businesses



▶ Attractive barriers to entry:

- **Scale** required to be profitable
- **Marketing spend requirements**, given branded goods
- **Retail shelf-space scarcity particularly in confectionary** – front-of-the-counter retail shelf space is owned by a few companies – hard for new entrants to penetrate



▶ In developed markets, cookies and crackers are DSD

- Direct-to-store-delivery (DSD) distribution is difficult to build and limits competitive entry
- KFT's large scale DSD is a strong competitive advantage which can increase Cadbury growth in North America



Improved Emerging Markets Access

PF Kraft will have 25% of sales in emerging markets, the highest exposure out of all its North American-based food peers, including Kellogg, General Mills, Hershey, H.J. Heinz and Campbell Soup

	Kraft	Cadbury	Combined
North America	58%	22%	51%
Europe	22%	34%	25%
Developing Markets	20%	44%	25%
Total	100.0%	100.0%	100%

Combined Net Revenues
in Key Geographies⁽¹⁾
(millions)

	Kraft Foods	Cadbury	Combined
Brazil	\$1,200	\$400	\$1,600
Russia	\$800	\$200	\$1,000
India	NM	\$300	\$300
China	\$400	\$50	\$450
Mexico	\$350	\$500	\$850
Argentina	\$400	\$100	\$500
Turkey	\$200	\$300	\$500
South Africa	\$50	\$350	\$400

Based on Pershing Square's estimates. Developing markets includes Australia and Japan. Percentages may not add up due to rounding.

Kraft's existing portfolio of dry goods (cookies, crackers, mac & cheese, dry desserts and powdered beverages) is well suited for Cadbury's distribution platform in emerging markets

Enhanced Go-To-Market Strategy

The transaction will significantly expand Kraft's ability to push single-serve offerings of its popular brands in instant consumption channels

Traditional Channels

- Kraft Foods strength
- Kraft Foods scale unmatched in North America
- As a result, Kraft Foods has unique capabilities to drive performance (e.g., Wall-to-Wall)
- Opportunity to leverage expertise as large-format retail grows globally

Instant Consumption Channels

- Cadbury strength
- Important class of trade in both developed and developing markets
- Provides significantly expanded reach vs. traditional channels
- Opportunity for higher growth and margins

Source: KFT company presentation

Higher Organic Growth Profile

We believe an organic growth rate of 4.5%– 5% is achievable for PF Kraft based on estimated growth rates in developed markets and emerging markets. We believe “Old” Kraft was capable of only 3%–3.5% organic growth

Est. Organic Growth

	Low	High
Emerging Markets	8%	12%
Developed Markets	2.5%	3.5%

Total Organic Growth	4%	6%
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PF Kraft is Significantly Undervalued

▶ **Based on our estimates, Kraft trades at less than ~10x 2012 EPS⁽¹⁾**

OR another way to look at it

▶ **PF Kraft trades at less than 15x 2009 EPS, excluding any synergies or other benefits from the transaction**

▶ **You pay under 15x LTM EPS and you get, for free:**

- ✓ ***\$675mm of cost saving synergies (>10% of Pro Forma EBIT)***
- ✓ ***Revenues synergies***
- ✓ ***Kraft standalone margin opportunity (margins up 150bps to ~15%)***
- ✓ ***Cadbury margin opportunity (margins up 150bps to ~15%)***
- ✓ ***Multiple expansion (better business, faster growth)***
- ✓ ***4% dividend yield, while you wait...***

(1) Based on recurring earnings per share and includes the estimated non-cash impact of 7 cents / share of step-up amortization as a result of the transaction. Kraft has not yet determined the step up in amortization.

What Is it Worth?

At the recent price of \$28 per share, we believe an investment in Kraft represents a 2-year IRR of 24% - 36%, depending on management's integration of Cadbury and market conditions. Our midpoint price for Kraft is roughly \$45 per share in two years

	Low	High
2012 EPS ⁽¹⁾	\$2.70	\$2.90
NTM P/E Multiple	15.0x	17.0x
2-Year Price Target	\$41 -	\$49
<i>Plus:</i> Dividend (two years)	\$2.32	\$2.32
Total \$ received per share	\$43 -	\$52
Total Return	52.9%	84.4%
2 Year IRR	24% -	36%

(1) Based on recurring earnings per share and includes the estimated non-cash impact of 7 cents / share of step-up amortization as a result of the transaction. Kraft has not yet determined the step up in amortization.

Why We Think the Stock is Not Appreciated

▶ Limited sell-side research on the transaction

- Goldman Sachs, Morgan Stanley, UBS, Lehman, Deutsche Bank, Lazard, Citigroup and others are advising on the deal
- As a result, many the major sell-side analysts have suspended coverage on Kraft until the transaction is consummated (could be mid-February)
- Kraft is covered by US analysts / Cadbury has European coverage

▶ Merger arbs shorting Kraft and going long Cadbury

▶ Near-term concerns regarding “flow back” from the transaction