

KRAFT FOODS INC  
Form 424B2  
January 05, 2012  
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**Filed Pursuant to Rule 424(b)(2)  
Registration No. 333-172488**

**The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are part of an effective registration statement filed with the Securities and Exchange Commission under the Securities Act of 1933. This preliminary prospectus supplement and the accompanying prospectus are not offers to sell these securities nor solicitations of offers to buy these securities in any jurisdiction where such offer or sale is not permitted.**

**Subject to Completion, Dated January 5, 2012**

**Prospectus Supplement to Prospectus dated February 28, 2011**

## **Kraft Foods Inc.**

### **\$ Floating Rate Notes due 2013**

This is an offering of \$ of Floating Rate Notes due 2013 to be issued by Kraft Foods Inc., a Virginia corporation. We will pay interest on the notes quarterly on January , April , July and October of each year beginning on April , 2012. The notes will bear interest at a floating rate equal to three-month USD LIBOR plus % per annum. The notes will be issued in registered form and only in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. The notes will mature on , 2013.

Upon public announcement of the record date for the proposed spin-off of our North American grocery business to our shareholders, we will be required to issue a notice of redemption of all of the notes at a redemption price equal to 100% of the aggregate principal amount of the notes, plus accrued and unpaid interest. See Description of Notes Special Mandatory Redemption in this prospectus supplement.

If we experience a change of control triggering event, we may be required to offer to purchase the notes from holders. See Description of Notes Change of Control in this prospectus supplement. The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior unsecured indebtedness.

Please read the information provided under the caption Description of Notes in this prospectus supplement and Description of Debt Securities in the accompanying prospectus for a more detailed description of the notes.

**See Risk Factors on page S-4 of this prospectus supplement to read about important factors you should consider before buying the notes.**

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Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Note	Total
Initial public offering price	%	\$
Underwriting discount	%	\$
Proceeds, before expenses, to Kraft Foods	%	\$

The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from January , 2012 and must be paid by the purchasers if the notes are delivered after January , 2012.

The underwriters expect to deliver the notes to purchasers in registered book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank S.A./N.V., as operator of the Euroclear System, and its indirect participants, against payment in New York, New York on or about January , 2012.

*Joint Book-Running Managers*

**Citigroup**

**RBS**

*Co-Managers*

**Prospectus Supplement dated January , 2012.**

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**You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any permitted free writing prospectus we have authorized for use with respect to this offering. No one has been authorized to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus or any document incorporated by reference is accurate as of any date other than the date on the front cover of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.**

**In connection with this offering, Citigroup Global Markets Inc. and RBS Securities Inc. or their respective affiliates may over-allot or effect transactions which stabilize or maintain the market price of the notes at levels which might not otherwise prevail. In any jurisdiction where there can only be one stabilizing agent, RBS Securities Inc. or its affiliates shall effect such transactions. This stabilizing, if commenced, may be discontinued at any time and will be carried out in compliance with the applicable laws, regulations and rules.**

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**The distribution of this prospectus supplement and the accompanying prospectus and the offering or sale of the notes in some jurisdictions may be restricted by law. Persons who come to possess this prospectus supplement and the accompanying prospectus are required by us and the underwriters to inform themselves about and to observe any applicable restrictions.**

**This prospectus supplement and the accompanying prospectus may not be used for or in connection with an offer or solicitation by any person in any jurisdiction in which that offer or solicitation is not authorized or to any person to whom it is unlawful to make that offer or solicitation.**

### **ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement contains the terms of this offering of notes. This prospectus supplement, or the information incorporated by reference in this prospectus supplement, may add, update or change information in the accompanying prospectus. If information contained in this prospectus supplement, or the information incorporated by reference in this prospectus supplement, is inconsistent with the accompanying prospectus, this prospectus supplement, or the information incorporated by reference in this prospectus supplement, will apply and will supersede that information in the accompanying prospectus.

It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents we have referred you to under the caption *Where You Can Find More Information* in the accompanying prospectus and under the caption *Incorporation by Reference* in this prospectus supplement.

Unless otherwise indicated or the context otherwise requires, references in this prospectus to *Kraft Foods, the Company, we, us and our* refer to Kraft Foods Inc. and its subsidiaries. Trademarks and servicemarks in this prospectus supplement and the accompanying prospectus appear in italic type and are the property of or licensed by us.

In this prospectus supplement, references to *\$, U.S. dollars and dollars* are to the lawful currency of the United States.

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

This prospectus supplement, the accompanying prospectus and certain statements incorporated by reference into this prospectus supplement contain a number of forward-looking statements. Words such as *expects, goals, plans, believes, continues, may, will, and variations of* words and similar expressions are intended to identify our forward-looking statements. The forward-looking statements contained in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference herein include our beliefs and expectations regarding our proposed spin-off transaction; the impact of new accounting standards; our intangible assets; expected pension contributions; our integration program; unrealized losses; results of legal matters; price volatility and cost environment; our liquidity; our funding sources; capital expenditures and funding; our financial covenants; repayment of debts; off-balance sheet arrangements and contractual obligations; our outlook; and our accounting policies. 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 our forward-looking statements include, but are not limited to, our ability to create two independent companies, continued volatility and increase in input costs, pricing actions, increased competition, the continuing weak economic environment, our indebtedness and our ability to pay our indebtedness, risks from operating globally 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 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 prospectus supplement or the accompanying prospectus, except as required by applicable law or regulation.

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**ABOUT KRAFT FOODS**

We are the world's second largest food company with revenues of \$49.2 billion and earnings from continuing operations before income taxes of \$3.6 billion in 2010. We have approximately 127,000 employees worldwide, and we manufacture and market packaged food products, including biscuits, confectionery, beverages, cheese, convenient meals and various packaged grocery products. We sell our products to consumers in approximately 170 countries. At December 31, 2010, we had operations in more than 75 countries and made our products at 223 manufacturing and processing facilities worldwide. At September 30, 2011, we had net assets of \$36.7 billion and gross assets of \$95.8 billion. We are a member of the Dow Jones Industrial Average, Standard & Poor's 500, the Dow Jones Sustainability Index and the Ethibel Sustainability Index.

At December 31, 2010, our portfolio included eleven brands with annual revenues exceeding \$1.0 billion each: *Oreo*, *Nabisco* and *LU* biscuits; *Milka* and *Cadbury* chocolates; *Trident* gum; *Jacobs* and *Maxwell House* coffees; *Philadelphia* cream cheeses; *Kraft* cheeses, dinners and dressings; and *Oscar Mayer* meats. Our portfolio includes approximately 70 brands which each generate annual revenues of more than \$100 million.

On August 4, 2011, we announced that our Board of Directors intends to create two independent public companies: (i) a global snacks business and (ii) a North American grocery business. The global snacks business will consist of our current Kraft Foods Europe and Developing Markets segments as well as our North American snack and confectionery brands. The North American grocery business will primarily consist of our current U.S. Beverages, Cheese, Convenient Meals and Grocery segments, grocery-related categories in our Canada & N.A. Foodservice segment as well as the *Planters* and *Corn Nuts* brands and businesses. We expect to create these companies through a U.S. tax-free spin-off of the North American grocery business to our shareholders. While our current target is to complete the spin-off before year-end 2012, we cannot assure that the spin-off will be completed on the anticipated timeline or that the terms of the spin-off will not change.

We are a Virginia corporation with principal executive offices at Three Lakes Drive, Northfield, IL 60093. Our telephone number is (847) 646-2000 and our Internet website is [www.kraftfoodscompany.com](http://www.kraftfoodscompany.com). Except for the documents incorporated by reference in this prospectus supplement and the accompanying prospectus as described under the "Incorporation by Reference" heading in both this prospectus supplement and the accompanying prospectus, the information and other content contained on our website are not incorporated by reference in this prospectus supplement or the accompanying prospectus, and you should not consider them to be a part of this prospectus supplement or the accompanying prospectus.

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**SUMMARY OF THE OFFERING**

The following summary contains basic information about this offering and the terms of the notes. It does not contain all the information that is important to you. For a more complete understanding of this offering and the terms of the notes, we encourage you to read this entire prospectus supplement, including the information under the caption Description of Notes, and the accompanying prospectus, including the information under the caption Description of Debt Securities, and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

<b>Issuer</b>	Kraft Foods Inc.
<b>Securities Offered</b>	\$ aggregate principal amount of Floating Rate Notes due 2013.
<b>Maturity Date</b>	, 2013.
<b>Interest Rate</b>	The notes will bear interest from January , 2012 at a rate per annum of three-month USD LIBOR plus %, which three-month USD LIBOR rate will be reset quarterly.
<b>Interest Payment Dates</b>	Quarterly on January , April , July and October of each year, beginning on April , 2012.
<b>Ranking</b>	<p>The notes will be our senior unsecured obligations and will:</p> <ul style="list-style-type: none"> <li>rank equally in right of payment with all of our existing and future senior unsecured indebtedness;</li> <li>rank senior in right of payment to all of our existing and future subordinated indebtedness;</li> <li>be effectively subordinated in right of payment to all of our existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness; and</li> <li>be effectively subordinated in right of payment to all existing and future indebtedness and other liabilities of each of our subsidiaries.</li> </ul>
<b>Covenants</b>	<p>We will issue the notes under an indenture containing covenants that restrict our ability, with significant exceptions, to:</p> <ul style="list-style-type: none"> <li>incur debt secured by liens above a certain threshold;</li> </ul>

engage in certain sale and leaseback transactions above a certain threshold; and

consolidate, merge, convey or transfer our assets substantially as an entirety.

For more information about these covenants, please see the information under the caption  
Description of Debt Securities Restrictive Covenants in the accompanying prospectus.

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**Special Mandatory Redemption**

Upon public announcement of the record date for the proposed spin-off of our North American grocery business to our shareholders, we will be required to issue a notice of redemption of all of the notes at a redemption price equal to 100% of the aggregate principal amount of the notes, plus accrued and unpaid interest to but excluding the special mandatory redemption date. See Description of Notes Special Mandatory Redemption.

**Change of Control**

Upon the occurrence of both (i) a change of control of Kraft Foods and (ii) a downgrade of the notes below an investment grade rating by each of Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch, Inc. within a specified period, Kraft Foods will be required to make an offer to purchase the notes at a price equal to 101% of the aggregate principal amount of such notes, plus accrued and unpaid interest to the date of repurchase. See Description of Notes Change of Control.

**Redemption of Notes for Tax Reasons**

We may redeem all, but not part, of a series of the notes upon the occurrence of specified tax events described under Description of Notes Redemption for Tax Reasons.

**Use of Proceeds**

We intend to use the net proceeds from the sale of the offered notes (estimated at \$ before expenses but after deducting the underwriting discount) for general corporate purposes, which may include repayment of debt.

**Clearance and Settlement**

The notes will be cleared through The Depository Trust Company, including its participants Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank S.A./N.V.

**Trustee**

Deutsche Bank Trust Company Americas

**Governing Law**

The indenture governing the notes is, and the notes will be, governed by, and construed in accordance with, the laws of the State of New York.



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**RISK FACTORS**

*Investing in the notes involves various risks, including the risks described in the documents we incorporate by reference herein. You should carefully consider these risks and the other information contained or incorporated by reference in this prospectus supplement before deciding to invest in the notes, including the risk factors incorporated by reference from our annual report on Form 10-K for the year ended December 31, 2010, as updated by our quarterly reports on Form 10-Q and other SEC filings filed after such annual report. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business operations, financial condition and liquidity.*

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**RATIO OF EARNINGS TO FIXED CHARGES**

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

	Nine months ended		Year ended December 31,			
	September 30, 2011	2010	2009	2008	2007	2006
Ratio of earnings to fixed charges	3.6	2.7	3.7	2.6	5.0	5.9

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

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**USE OF PROCEEDS**

We intend to use the net proceeds from the sale of the offered notes (estimated at \$ before expenses but after deducting the underwriting discount) for general corporate purposes, which may include repayment of debt.

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**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization on a consolidated basis as of September 30, 2011. We have presented our capitalization:

on an actual basis; and

on an as adjusted basis to reflect:

the issuance of notes offered hereby; and

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

You should read the following table along with our financial statements and the accompanying notes to those statements, together with management's discussion and analysis of financial condition and results of operations, contained in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus.

	September 30, 2011	
	Actual	As Adjusted
	(unaudited) (in millions)	
Short-term borrowings, including current maturities Floating Rate Notes due 2013	\$ 5,739	
Other long-term debt	23,139	
Total debt	28,878	
<b>Kraft Foods shareholders' equity:</b>		
Common Stock		
Additional paid-in capital	31,279	
Retained earnings	17,695	
Accumulated other comprehensive losses	(4,864)	
Treasury stock, at cost	(7,518)	
Total Kraft Foods shareholders' equity	36,592	
Total capitalization	\$ 65,470	\$

**Table of Contents****DESCRIPTION OF NOTES**

The following description of the particular terms of the Floating Rate Notes due 2013, which we refer to as the notes, supplements the description of the general terms and provisions of the debt securities set forth under Description of Debt Securities beginning on page 7 of the accompanying prospectus. The accompanying prospectus contains a detailed summary of additional provisions of the notes and of the indenture, dated as of October 17, 2001, between Kraft Foods Inc. and Deutsche Bank Trust Company Americas (as successor to The Bank of New York and The Chase Manhattan Bank), as trustee, under which the notes will be issued. To the extent of any inconsistency, the following description replaces the description of the debt securities in the accompanying prospectus. Terms used in this prospectus supplement that are otherwise not defined will have the meanings given to them in the accompanying prospectus.

We will offer \$ principal amount of the notes as a series of notes under the indenture. Unless an earlier redemption has occurred, the entire principal amount of the notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on , 2013.

**Interest**

Each note we issue will bear interest at a rate per annum of LIBOR (as defined below) plus %, as determined by the calculation agent, which shall initially be Deutsche Bank Trust Company Americas as the trustee under the indenture. Interest will accrue from January , 2012 and is payable quarterly in arrears on January , April , July and October of each year (these dates are called interest payment dates ), beginning on April , 2012; provided that if any such date (other than the maturity date or a date fixed for redemption) is not a business day, the interest payment date will be postponed to the first following business day unless that business day is in the following calendar month, in which case the interest payment date will be the immediately preceding business day, and interest will accrue to but excluding the date interest is paid.

The interest rate will be reset quarterly on each interest payment date (each of these dates is called an interest reset date ). Interest is payable from January , 2012 or from the most recent interest payment date to which interest on the notes has been paid or duly provided for, until the principal amount of the notes is paid or duly made available for payment. We will pay interest to the person in whose name a note is registered at the close of business 15 calendar days before the interest payment date.

If the maturity date or a date fixed for redemption is not a business day, then payment of interest or principal need not be made on such date, but may be made on the next succeeding business day unless that business day is in the following calendar month, in which case such payment will be made on the immediately preceding business day, in each case with the same force and effect as if made on the scheduled maturity date or such date fixed for redemption, and no interest shall accrue as a result of the delayed payment.

As used in this prospectus supplement, business day means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in New York, provided such day is also a London banking day.

LIBOR for each interest reset date, other than for the initial interest rate, will be determined by the calculation agent as follows:

(a) LIBOR will be the offered rate (expressed as a percentage per annum) for deposits in U.S. dollars for the three-month period which appears on Reuters Page LIBOR01 (as defined below) at approximately 11:00 a.m., London time, two London banking days prior to the applicable interest reset date.

(b) If this rate does not appear on Reuters Page LIBOR01, the calculation agent will obtain such rate from Bloomberg Page BBAM. If no such rate appears on any such page on an interest determination date at approximately 11:00 a.m. London time, the calculation agent will determine the rate on the basis of the rates at

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which deposits in U.S. dollars are offered by four major banks in the London interbank market (selected by the calculation agent after consulting with us) at approximately 11:00 a.m., London time, two London banking days prior to the applicable interest reset date to prime banks in the London interbank market for a period of three months commencing on that interest reset date and in a principal amount equal to an amount not less than \$1,000,000 that is representative for a single transaction in such market at such time. In such case, the calculation agent will request the principal London office of each of the aforesaid major banks to provide a quotation of such rate. If at least two such quotations are provided, LIBOR for that interest reset date will be the arithmetic mean of such quotations. If fewer than two quotations are provided as requested, LIBOR for that interest reset date will be the arithmetic mean of the rates quoted by three major banks in New York, New York (selected by the calculation agent after consulting with us) at approximately 11:00 a.m., New York time, two London banking days prior to the applicable interest reset date for loans in U.S. dollars to leading banks for a period of three months commencing on that interest reset date and in a principal amount equal to an amount not less than \$1,000,000 that is representative for a single transaction in such market at such time; provided, however, that if the banks selected by the calculation agent are not providing quotations in the manner described by this paragraph, for the period until the next interest reset date, LIBOR will be the same as the rate determined on the immediately preceding interest reset date.

The interest rate in effect from January , 2012 to the first interest reset date will be based on three-month LIBOR two London banking days prior to January , 2012.

Bloomberg Page BBAM means the display designated as page BBAM on the screens maintained by Bloomberg L.P. (or any successor service) (or such other page as may replace page BBAM on Bloomberg L.P. or any successor service).

A London banking day is any day in which dealings in U.S. dollar deposits are transacted or, with respect to any future date, are expected to be transacted in the London interbank market.

Reuters Page LIBOR01 means the display designated as page LIBOR01 on the screens maintained by Reuters (or any successor service) (or such other page as may replace page LIBOR01 on Reuters or any successor service).

The calculation agent will, upon the request of the holder of any note, provide the interest rate then in effect. The calculation agent is Deutsche Bank Trust Company Americas until such time as we appoint a successor calculation agent. All calculations made by the calculation agent in the absence of willful misconduct, bad faith or manifest error shall be conclusive for all purposes and binding on us and the holders of the notes. We may appoint a successor calculation agent at any time at our discretion and without notice.

All percentages resulting from any calculation of the interest rate with respect to the notes will be rounded, if necessary, to the nearest one-hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., 9.876545% (or 0.09876545) being rounded to 9.87655% (or 0.0987655)) and all dollar amounts used in or resulting from any such calculation will be rounded to the nearest cent (with one-half cent being rounded upward).

Interest on the notes will be computed and paid on the basis of a 360-day year and the actual number of days in each interest payment period. The interest rate on the notes will in no event be higher than the maximum rate permitted by New York law, as the same may be modified by United States law of general application.

**General**

In some circumstances, we may elect to discharge our obligations on the notes through full defeasance or covenant defeasance. See Description of Debt Securities Defeasance beginning on page 14 of the accompanying prospectus for more information.

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

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

### **Special Mandatory Redemption**

The closing of this offering is expected to occur prior to the completion of the proposed Spin-Off. We will issue a press release at least 10 calendar days prior to the special record date we will declare (the **Spin-Off Record Date**) to determine the holders of our common stock that will be entitled to receive shares in respect of the North American Grocery Business in the Spin-Off, which press release will specify the Spin-Off Record Date and the date the Spin-Off will be consummated (the **Distribution Date**).

We must redeem all of the notes on the date five business days prior to the Distribution Date at a price equal to 100% of the aggregate principal amount of the notes, plus any accrued and unpaid interest on the notes from the date of initial issuance, or the most recent date to which interest has been paid or provided for, whichever is later, to but excluding to the date of redemption (the **Mandatory Redemption Date**). We will provide notice of the Mandatory Redemption Date to holders of the notes by mail to each holder at its registered address, with a copy to the trustee, on the same day we issue the press release announcing the Spin-Off Record Date, which notice will be no less than 15 calendar days before the Mandatory Redemption Date. If funds sufficient to pay the mandatory redemption price of all notes to be redeemed on the Mandatory Redemption Date are deposited with the paying agent on or before the Mandatory Redemption Date, then on and after the Mandatory Redemption Date, the notes will cease to bear interest and all rights under the notes shall terminate.

For purposes of the two paragraphs above, a **Spin-Off** will be any spin-off that separates substantially all of our North American Grocery Business and the remainder of our businesses into two separate public companies, and **North American Grocery Business** is any group of businesses that primarily consist of Kraft's current U.S. Beverages, Cheese, Convenient Meals and Grocery segments, grocery-related categories in its Canada & N.A. Foodservice segment as well as the *Planters* and *Corn Nuts* brands and businesses. For more information regarding the Spin-Off, including risk factors related thereto, see our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, incorporated by reference into this prospectus supplement as described under **Incorporation by Reference**.

### **Change of Control**

If a Change of Control Triggering Event (as defined below) occurs, unless we have redeemed the notes as described above under **Special Mandatory Redemption** or exercised our right to redeem the notes upon the occurrence of specified events as described below under **Redemption for Tax Reasons**, holders of notes will have the right to require us to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of their notes pursuant to the offer described below (the **Change of Control Offer**) on the terms set forth in the notes. In the Change of Control Offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest, if any, on the notes repurchased, to the date of purchase (the **Change of Control Payment**). Within 30 days following any Change of Control Triggering Event, we will be required to mail a notice to holders of notes describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase the notes on the

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date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the Change of Control Payment Date ), pursuant to the procedures required by the notes and described in such notice. We must comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act ) and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the notes, we will be required to comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control provisions of the notes by virtue of such conflicts.

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

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

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

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

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

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

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

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

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

**Change of Control** means the occurrence of any of the following: (i) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Kraft Foods and its subsidiaries taken as a



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whole to any Person (as defined below) or group of related persons for purposes of Section 13(d) of the Exchange Act (a "Group") other than Kraft Foods or one of its subsidiaries; (ii) the approval by the holders of our common stock of any plan or proposal for the liquidation or dissolution of Kraft Foods (whether or not otherwise in compliance with the provisions of the indenture); (iii) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any Person or Group becomes the beneficial owner, directly or indirectly, of more than 50% of the then outstanding number of shares of Kraft Foods' voting stock; or (iv) the first day on which a majority of the members of Kraft Foods' Board of Directors are not Continuing Directors (as defined below).

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

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

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

Fitch means Fitch, Inc.

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

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

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

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

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

**Book-Entry Notes**

The notes will be offered and sold in principal amounts of \$2,000 and integral multiples of \$1,000 in excess thereof. We will issue the notes in the form of one or more permanent global notes in fully registered, book-entry form, which we refer to as the "global notes." The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for each such global note. The notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by

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an authorized representative of DTC. One fully-registered note certificate will be issued with respect to each \$500 million of principal amount of the issue of the notes, and an additional certificate will be issued with respect to any remaining principal amount of such issue, which certificates will be deposited with DTC. Unless and until it is exchanged in whole or in part for notes in definitive form, no global note may be transferred except as a whole by the Depository to a nominee of such Depository. Investors may elect to hold interests in the global notes through either the Depository (in the U.S.) or through Clearstream Banking, société anonyme, Luxembourg ( Clearstream ) or Euroclear Bank S.A./N.V., as operator of the Euroclear System ( Euroclear ), if they are participants in such systems, or indirectly through organizations that are participants in such systems.

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

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

DTC has advised us that:

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

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

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

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

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

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

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



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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Payments of principal and interest on the notes and redemption proceeds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from an issuer or its agent, on the payable date in accordance with their respective holdings shown on DTC's records. We will send all required reports and notices solely to DTC as long as DTC is the registered holder of the global notes. Neither we, the trustee, nor any other agent of ours or agent of the trustee will have any responsibility or liability