



Unite urges shareholders to consider the wisdom of any takeover when Cadbury has shown both its capacity and potential as a standalone company to deliver sustainable growth through the production of high-quality products.

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Published by Unite the union

Joint General Secretaries Derek Simpson and Tony Woodley

■ INTRODUCTION

Unite, representing production and craft workers, and staff members at nine Cadbury sites across the UK and Ireland, is pleased to be able to contribute to the shareholder response to the Kraft takeover bid. Unite urges shareholders to consider the wisdom of any takeover when Cadbury has shown both its capacity and potential as a standalone company to deliver sustainable growth through the production of high-quality products.

As the union for UK and Ireland Cadbury employees, Unite clearly has an enormous stake in ensuring Cadbury's sustainability as a prosperous, environmentally and socially responsible manufacturer producing long term value for all stakeholders; employees, local communities, suppliers, investors and consumers. For a number of reasons we believe that the proposed acquisition by Kraft would undermine the company's capacity to deliver sustainable value for all stakeholders and this document summarises the analysis behind that belief.

The employees' stake in the long-term prosperity, growth and viability of the company is self-evident. The question for Unite is not whether the proposed offer is too low, or whether the total sum or mix of cash to shares in the offering is appropriate. Our standpoint is based on a long-term vision of Cadbury rather than a one-off capital gain.

■ CADBURY HAS DELIVERED FOR ALL STAKEHOLDERS

Cadbury on its own has both been successful in generating good returns for shareholders and in sharing that success with other stakeholders, including its employees.

Despite some decisions that Unite has challenged, notably the decision to move production from Somerdale to Poland, Cadbury has historically acted in a way that we believe puts them in the upper echelons amongst UK companies in terms of how it shares its success with its employees, providing highly skilled jobs with good wages, terms and conditions, excellent pension provision and, other than the decision to move production from Somerdale to Poland, job security for thousands of workers.

■ TAKEOVER BY KRAFT – RISKS AND REPUTATIONAL SHOCKS

We believe that the acquisition of Cadbury by Kraft risks exposing both companies to financial and reputational risks which could impact negatively on all stakeholders, including investors. A takeover by Kraft would bring

- Changes to management style
- Excessive debt which we believe could incur unacceptable risks to employees, brand reputation and shareholder value
- Control of the company to move from the UK

(a) Change to management style

Cadbury remains a highly focused company with proven success in its key product divisions, high growth potential and expanding revenues in emerging markets, commitment to investment and organic growth averaging 6% each year over the past 4 years ¹. Kraft, on the other hand, has accumulated a massive amount of debt despite ongoing divestitures, and remains a classic conglomerate with beverage, convenience meal, cheese and grocery divisions.

As Altria began its drawn out Kraft spin-off, an industry source observed in June 2002, "Overall, sales of cookies and crackers have been slower than usual because the category leaders, such as Nabisco and Keebler, have been in a state of transition as their parent companies, respectively Kraft and Kellogg, integrate their global businesses." ²

Since then, financial analysts continue to question whether the company's latest turnaround plan is delivering results. In a Q3 results discussion with analysts ³, analysts again highlighted Kraft's tendency to achieve margins through pricing alone in response to declining volumes. Kraft's Q3 2009 results showed a net revenue

decline of 5.7 percent, while its own presentation to investors acknowledged it is still striving to achieve its goal of "restoring profit margins to industry benchmarks." The 2008 acquisition of Danone's biscuit division has clearly failed to restore the vitality investors were promised.

We believe extending Kraft's already huge portfolio of diverse activities is not likely to work – rather consolidation around their current offerings makes more sense. Acquiring Cadbury while Kraft has not yet finished its latest turnaround plan is likely to detract from as opposed to enhance Cadbury's operations.

(b) Excessive debt could incur unacceptable risks to employees, brand reputation and shareholder value

Long-term debt at Kraft has skyrocketed from \$7.08 billion in 2006 to \$12.9 billion in 2007 to \$18.58 billion in 2008 ⁴, and at the November offer price, Kraft has made additional arrangements to take on up to an extra £5.5bn ⁵.

One effect of high debt can be to increase the financial risk of a firm, with the risk of default shifting risk - often dramatically so - to other stakeholders. Given the high level of gearing, the associated debt frequently has lower credit rating, implying higher perceived risk of default. In September 2009, three different ratings agencies placed Kraft on a ratings watch ⁶.

Future refinancing is likely to take place against a background of weak consumer spending as high levels of unemployment persist while real interest rates are expected to rise as governments respond to record deficits, with the potential to further add to Kraft's debt woes.

The greater the quantity of debt a company held on its balance sheet, the greater the chance of redundancy, and erosion of pay and conditions as the business struggles to repay its interest

burden. Higher debt can lead to management being more likely to attack terms and conditions and to much harder work and more stress, not just for employees but also for stakeholders such as suppliers who are less likely to be paid. Even if a company does not default, workers have less job security and are looking over their shoulders a lot more, worrying what will happen if the company misses the projections its debt is based on and struggles to meet its repayments. In other words workers face risk on an on-going basis by excessive debt on a firm's books.

The heavy burden of debt service in the form of interest and scheduled debt forces management to focus on costs and cash flow at the expense of investment in productive facilities and brand as well as R&D. In sharp contrast to Cadbury's success with proven product lines, Kraft has responded to financial pressures by severe cost cutting and outsourcing (rather than through growth) in an attempt to meet earnings forecasts. The additional burden of debt following on a Cadbury takeover would in our opinion leave Cadbury an irresistible target for short-term asset stripping and major cost cutting to free up cash for servicing the debt. Under pressure to meet financial targets, Kraft announced the elimination of close to 19,000 jobs, with the closure of 35 facilities between 2004-2008 ⁷.

This failed to prevent a third quarter 2009 performance showing declining net revenues. It is clear from our discussions with sister trade unions that any further attempts to close plants and attack jobs and conditions would be met with significant resistance, in particular in Europe, again increasing potential for damage to brand reputation and share price.

The strategy of cutting jobs to meet short-term targets has meant extensive outsourcing of core as well as new products. In 2007, production of the iconic Fig Newton cookies was transferred to Mexico, prompting the Democratic Representative of North Dakota to testify in Congress ⁸ that:

"I have spoken often of Fig Newton cookies. It used to be that Fig Newton was the all-American cookie. Well, next time somebody says, let us have some Mexican food, just say, give me a Fig Newton, from Monterey, Mexico. By the way, Kraft Foods moved the production of Fig Newton cookies to Monterey, Mexico."

This was followed by the move to Mexico of the production of Graham Crackers, another iconic Kraft product. Outsourcing on this scale gives a foretaste of what could be expected should the takeover go through.

- **Actions of suppliers can further risk brand reputation**

Unite believes that outsourcing leaves companies vulnerable to the actions of other companies not directly in their control and that this can in turn lead to a negative impact on brand reputation. Consolidated Biscuits, a company which manufactures Nabisco and Kraft products, has become a widely cited example of a company committing serial violations of United States labour law.

On November 14, 2008, to cite but one example, the Sixth District Court of Appeals delivered a 48 page judgement finding that the company in question in flagrant and repeated violation of the law for "telling employees not to talk about the Union on company time: suggesting to employees that supporting the Union would be futile: instructing security guards to call police at the first sign of union activity and calling the police to the facility... threatening employees with loss of benefits, plant closures, and stricter discipline if they supported the union", and on 24th October, The Toledo Blade cited Consolidated Biscuits as being "on the nation's list of the most hazardous workplaces."

(c) Negative impact of the move of control of the company to outside the UK

If Cadbury are acquired by Kraft, the control of this iconically British company will move from the UK to Northfield, Illinois. Overnight, this will mean that Cadbury will cease to be an entity with a strong sense of being an integral part of everything British to being a smallish UK subsidiary of a large US food conglomerate.

All important decisions will thereafter be taken in Illinois rather than by people who understand the Cadbury heritage and are dedicated to its maintenance and future which in our view attracts the very real risks of damage to brand and reputation and employment that have been emphasised in this document.

■ CONCLUSION

In light of the potential for problems as outlined above arising from any Kraft takeover, Unite has asked Kraft to provide commitments for future investment in the UK and Ireland, along with

- A guarantee of no site closures in UK and Ireland for 5 years
- A guarantee of no compulsory redundancies in UK and Ireland for 5 years
- A guarantee of no erosion of terms and conditions for 5 years
- A guarantee of no diminution to pension benefits or increase in contributions for 5 years and a commitment that the company will fund any pension deficit

This is not an exhaustive list but Unite believes that they are all reasonable expectations of a company of the size and resources that Kraft would become following the acquisition of Cadbury. Unite has not had a satisfactory response on these points from Kraft.

Unite hopes that the Kraft offer will be rejected on the simple grounds that it could introduce serious potential for financial instability and damage to reputation into a company with a proven record for delivering sustainable value to all stakeholders.

In this context, Unite urges shareholders to consider the wisdom of any takeover when Cadbury has shown both its capacity and potential as a standalone company to deliver sustainable growth through the production of high-quality products.

We further urge shareholders to join Unite in our campaign to keep Cadbury independent; please contact us at the postal/email address below if you wish to do so.

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- 1** Cadbury Report & Accounts 2007,2008
 - 2** "Disillusioned analyst ponders Kraft Foods breakup"
<http://www.chicagobusiness.com/cgi-bin/news.pl?id=19763&seenlt=1>
 - 3** <http://seekingalpha.com/article/102740-kraft-foods-inc-q3-2008-earnings-call-transcript?page=7>
 - 4** Kraft Prospectus 4.12.2009; 10K Annual Report for year 31.12.2007
 - 5** Offer by Kraft Foods Inc for Cadbury plc p120
 - 6** <http://ftalphaville.ft.com/blog/2009/09/09/70811/krafts-credit> ; Moody's reviews Kraft rating for downgrade after Cadbury proposal Global Credit Research 8 September 2009; Fitch places Kraft's 'BBB/F2 ' rating on rating watch negative 8 September 2009; Standard & Poors Kraft Foods Inc 9.11.2009
 - 7** Kraft Q3 report 2009,<http://biz.yahoo.com/e/091103/kft10-q.html>
 - 8** The December 6, 2009 Congressional Record



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