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WORLD TELEVISION

Cadbury

Media Presentation Q&A
14th December 2009

Rupert Steiner, Daily Mail: You said there's further cost cutting to come from your European management structures, does that mean UK jobs?

Todd Stitzer: Does that mean UK jobs?

Rupert Steiner, Daily Mail: Yes.

Andrew Bonfield: No it's Continental European.

Rupert Steiner, Daily Mail: It's Continental Europe?

Andrew Bonfield: And that was announced in July so there's no new news there.

Rupert Steiner, Daily Mail: No new news. And you also said - sorry, won't the margin growth come at the cost of hiking prices to consumers?

Todd Stitzer: Not likely, I mean we will manage costs - manage pricing in line with our policy to recover input costs, but certainly not.

Steve Hawkes, The Sun: Can you just comment on what if any discussions there have been with Lord Mandelson and how wary you are of playing the national card and wrapping yourself in the Union Jack?

Roger Carr: We've been very clear Steve throughout that there won't be a Union Jack defence and it won't be a heritage play. You know this is about value of a business today. Now, people from all quarters have given us support, you know politicians, consumers, people from all over the world and you know we are very appreciative of their support for a company that truly has such regard wherever. But it is not something that we've encouraged and it's not something we see as part of our defence. This is about value for our shareholders.

- Catherine Boyle, The Times: I was just wondering, you mentioned in the [inaudible no microphone] statement about how you felt about what's happening to input costs at the minute how you're going to manage this going forward, could you give us a bit more clarity on that that now?
- Roger Carr: So this is about input cost, yes?
- Catherine Boyle, The Times: Yes.
- Andrew Bonfield: Yes, we've assumed a reasonable increase in input costs for 2010 that's in our base case. Thereafter from 2010 onwards we've kept it broadly flat, as you would expect in any strategic planning exercise. The plan is based on the assumption we get about two thirds of our revenue growth from volume and about a third from price. Obviously we've had a very strong track record of actually achieving price increases in high input cost inflation. But obviously for planning purposes we've assumed that's broadly flat after 2010.
- Catherine Boyle, The Times: [inaudible no microphone]
- Andrew Bonfield: I can't give you the specifics unfortunately because we are in the profit forecast period so we have to be very careful about what has been verified. We will talk about that as soon as we can when we give 2010 guidance.
- John Marshall,
Shares Magazine: Two slightly different questions, one on emerging markets. You did say that in 2002, 20% of your business was in emerging markets. Now is that 20% of the confectionary business or 20% of Cadbury Schweppes ...?
- Todd Stitzer: Confectionary.

John Marshall,
Shares Magazine:

Because of course Schweppes had very little ...

Todd Stitzer:

No, just confectionary.

John Marshall,
Shares Magazine:

Now, you did refer to India and Brazil as doing terribly well, would it be fair to say that your ventures in Russia and China - other emerging markets have been not short of troubles?

The second question I'd like to ask is on your share register, can you say how much the hedge funds now have and how much of your share register is in the hands of American's - who certainly won't listen to the Union flag, but might listen to another flag?

Roger Carr:

Shall I pick up that one first, well the register has actually remained you know remarkably stable for a company that is under siege. I mean clearly it does vary a little but the movement was towards about 15% for hedge funds versus the sort of long funds. And the reason I think in truth that it moved so little is that the long funds have held on and there has been you know quite a limited amount of turbulence of volume in the stock as you would have seen.

Now the people that have bought in the hedge fund are the type of hedge fund that I would regard as sort of sensible and thoughtful and they don't just look for immediate profit, they're looking for medium term as well. And I think you know they are thoughtful about value and would not pass it over to another party foolishly.

With regard to the mix of the register, we always had a sort of US weighting really and something like I think 46, 47% of the

register is in US hands. It is held by funds that may be very often US based but international fund managers. So that isn't a particularly weighty part of the argument. And in all the dialogue I've had with them whether they're frankly here, Continental Europe or North America the common theme is, you know understanding the value of this business as a standalone quality business and recognising that that value must be paid for if someone is to bid and be successful. That I think unites all the shareholders wherever they may be.

Todd Stitzer:

So onto emerging markets, just to sort of reprise - our emerging markets have grown about 12% organically, 17% in total by virtue of acquisitions. Africa, South America and Asia have grown somewhere between 15 and 20% for each of the last four or five years. China has grown remarkably in the sort of 25 to 30% range, but we have - it's a very small business. So it's 25 or 30% off a small base.

You'll recall last year in the fourth quarter we had a recall by virtue of the melamine scandal. But the China business is I would say of the three difficult businesses we had in 2006, Nigeria, Russia and China - China will probably turn profitable in 2010; Nigeria and Russia have been comfortably profitable for the last couple of years.

Growth in Nigeria is outstanding and growth in Russia is outstanding. You know we have a Russia business that's about £140/50 million - its growth is excellent, its profitability has been not as robust as we'd like it to be, it is profitable and it's because we have an expensive route to market. We are focused on Russia and China as longer-term growth opportunities, with South America, Africa and Asia and the focus of Asia on India and Southeast Asia as our sort of growth drivers in the emerging market world in the medium term that the revised Vision into

Action is looking at. So more than you wanted to know about our emerging market strategy.

John Marshall,
Shares Magazine:

You can never know too much.

Roger Carr:

Any others yes please.

Julia Werdigier,
New York Times:

Could you give us an estimate of how much this defence is costing you in terms of advice and advertising? And do you plan a big advertising campaign leading up to the deadline of the offer?

Roger Carr:

Are you pitching for business? Andrew do you want to?

Andrew Bonfield:

We haven't actually given an estimate of the total costs, but they will obviously be substantial, most of those costs - although they'll be accrued this year will actually be paid out next year; so they won't have any impact on the actual 2009 cash flow. But they will be substantial, as you would expect. Advertising is probably not likely to be a large portion of that; it is more likely to be advisory fees as the major element of that.

Julia Werdigier,
New York Times:

Can you give us a ballpark figure?

Andrew Bonfield:

I'm not sure that I'm allowed to because I will actually probably have had to have had it verified by Deloitte and Touché and we haven't done that yet.

Cecile Rohwedder,

Wall Street Journal:

Mr. Carr you said there have been publicly stated interest from the third parties which most of us have seen. Has there been any contact with you all directly that you can comment on?

Roger Carr:

Well no, what I've said I think remains the case. I mean the two people who have stood up and said we're interested clearly are Hershey and Ferrero, apart from Kraft. We've registered that. I mean we have said to them that - you know that's fine, this is about value, if you can deliver a sort of fully financed, credible, compelling value proposition to us then you know we will sit down and talk seriously about it. I mean that's the responsibility we have for the shareholders.

But until you get to that stage you know there is no point in having any conversations. So if and when we get there, yes we will seek to develop it for the shareholders, but we're not there yet. Steve?

Steve Hawkes, The Sun:

I just wondered on that point have you and the board actually at any point discussed the idea of perhaps flipping that and looking at Hershey and going on the offensive?

Roger Carr:

This is the - well ...

Todd Stitzer:

A sort of Pac Man ...

Roger Carr:

It is a sort of Pac Man isn't it from somebody who hasn't quite emerged as a potential buyer. I mean the facts are I think that we have said as a business if we are to expand and we are to use our funds to build the business model then we would favour spending that money in the growth markets, where we can see the higher returns.

So I think the position is different the other way round, if you are a company like Hershey, you are geographically limited and you are product limited and therefore potentially someone like Cadbury could be appealing. For us, you know whilst we have a sort of cultural empathy with Hershey, you know they are a chocolate business in a part of the world that is developed and not where we would choose to spend our money in scale. So I think it's a different sort of strategic need and therefore the reverse isn't the way forward. We're building in growth areas; they I think are looking to their strategic model and potentially valuing it.

David Jones, Reuters:

Just following on from those couple of questions. I mean how seriously should we take those two approaches from these two other companies. I mean obviously it has repercussions for your share price and your future, so have you actually held talks with these two parties or have they just come to you?

Roger Carr:

I mean I've tried to say that our sort of defence is not to run around finding you know white knights or other people that might bid. You know we're not for sale. And you know we're here to do a fiduciary duty for shareholders, by people that approach us with compelling offers. I mean that's where this whole thing begins and ends. And if the value is there for the shareholders we have a responsibility and a belief to deliver it.

So you know that is where the discussions with others begins and ends; they have to come forward with something that is fully financed and deliverable to trigger sensible conversations. And as yet we have only had one offer which is far from compelling, it's sort of derisory on a good day because it keeps falling and we've had two statements of intent from people who have yet to come forward with an offer.

So we are working on the basis of, here is a great business, it has a wonderful independent future, the management team have outlined that this morning. If offers come where tomorrow's price can be paid for today then we have a responsibility to consider that. But we're not there yet David.

David Jones, Reuters:

Have you actually talked to Ferrero and Hershey?

Roger Carr:

Well these are companies that clearly we know and we have told them very clearly what the rules of the game are. But until they come forward, if indeed they ever come forward with something that meets those criteria then there is no point in getting into conversations.

Helen Power, The Times:

That said, what odds Roger would you put on still being independent this time next year?

Roger Carr:

Well you know Helen it's not for us to decide. I mean if nothing happens and Kraft do not raise their price at all then you know I'm not much of a betting man, but I would favour our shareholders suggesting they would see more value of us as an independent than by accepting a derisory offer. But there are lots of moving parts here, there is lots of time to come and we shall see what others decide to do.

I think our position is, we are running this business as though we are going to be independent, this year, next year and forever. You know our responsibility is to drive it on that basis. If somebody intervenes with sufficient money to change that we have to respond accordingly. But our mindset is we are here to create value for shareholders and at the moment the best way looks like being as an independent business.

Jenny Wiggins,

- Financial Times: Can you comment on what you think would be adequate value for shareholders - I mean what kind of price range would you be looking at?
- Roger Carr: What an interesting question Jenny, I've never thought it was a good idea to put a price in a market in case it became the ceiling. So I don't think we'll be doing that even for you. I would say if you look generally at the independent views of value for this business and that's many, many analyst reports, you see a spread but the mid eights is seen by many to be reasonable, going to the early nines.
- Now that's their view of value, we as a board would have to judge the value if and when we received an offer. But clearly we've had nothing that approaches that to date.
- Andrew Bonfield: And Jenny just to add, I mean one of the key things that we've put in the actual document itself is the fact the cross offer is actually about 11.6 times 2009 forecast EBITDA. No transaction has been done in this industry below 14 times. One of Kraft's earlier statements was the fact that the world has changed and therefore price should be lower. The reality which is the lowest benchmark we quoted in the document is the actual Adams acquisition by Cadbury and at that time the PE multiple that Cadbury was trading on is exactly the same PE multiple it was trading on before the bid was launched. So the market hasn't change that much.
- Roger Carr: I'm looking around, have we exhausted you all?
- Zoe, The Guardian: Some of the analysts have said that they didn't think there was that much new thinking. Given how fast the emerging markets are growing at the moment is it stretching yourself to put down 12% as a target?

- Todd Stitzer: I mean we've experienced 12% growth for the last four or five years. So I mean we've - given the dynamic of pricing and commodities we've kind of given a range, because you know we want to make sure we can get to that level, but we don't see that as a problem.
- Zoe, The Guardian: Don't you think investors will want you to show them that you're going to do more and why they should stick with you, not what you're already doing?
- Todd Stitzer: Yes, I think - well we've taken our revenue growth up a click from 4 to 6 to 5 to 7, I think that's a pretty good indication to investors that we're willing to be more aggressive in that regard.
- Andrew Bonfield: And Zoe, if we had changed our strategy just purely because we had a bid on the table that wouldn't be credible either. I mean one of the things often companies do do in this situation is do 180° degree U-turn from where they are. I find that incredible rather than actually maintaining a very credible strategy which we're delivering on, executing against, 350 basis points of margin improvement. And the key thing for shareholders over the course of this plan is the considerable cash flow that will accrue to them. That is really the key difference from where we were in Vision into Action. And that really is the key to value creation for them.
- So there's a lot there and actually it's in line with what their expectations were of the company and being able to deliver that is really critical for us as an independent company.
- Roger Carr: I think that's fair and I think you know this is not a firework display and nor should it be. I mean the company is in robust health, it's positioned itself correctly, it's performing in a very

strong way quarter by quarter. And I think the position it's reaching out for is best in class. And you know as an investor in a high quality business best in class performance, that doesn't seem like a bad asset to own.

James Thompson,
The Independent:

You've describe Kraft as a low growth conglomerate, can you be a bit more specific about what is it about their strategy that's so unattractive?

Roger Carr:

Well I think - and I'll ask Todd as well, but I mean my own observations are as follows really. I mean we're not here to judge Kraft; we have no real interest in them. You know their position really is that they are a very large business, in a multiplicity of activities. You know some strong brands some less strong in mostly developed markets that are frankly not delivering the growth that is required, and in strategic terms will struggle to do so given the mix of businesses they have.

Now that's very much a reflection of what has occurred in their performance when you see the year by year shrinking margins since they became as it were independent and the falling share price that goes with that.

So you know there is a model there that is large, complex, not pure play and therefore more difficult to engage with as an employee and typically more difficult to drive performance from as a member company.

So for us, you know who are in the completely reversed position of having a pure play structure, very focussed, excellent development market exposure with people who clearly understand both the value and the performance needs of the company. You know that's a very strong model to be part of and

you would hardly swap that for the Kraft alternative; particularly for very little money.

Todd Stitzer:

That covers it from my perspective. I mean I just think you - the concept of taking what is a very sort of fast moving sports car and sticking it into the sort of four door sedan - you know lane of traffic I think that's what's happening. I mean it would be - people would lose focus on the business in my view, because they have to deal with much larger and less fast growing segments of the market.

James Thompson,
The Independent:

But just to be clear you wouldn't really care as long as Kraft paid the right price?

Roger Carr:

We've said that this board is about value. So I've made the point ...

James Thompson,
The Independent:

So the cultures could go as long as there's the right price, everything has its price?

Roger Carr:

The issue for the board is its fiduciary duty. And it is the offer not the bidder that we have to focus on. Whatever the emotions may be it is the facts that have to drive the decision. Now part of the value of this company is the values that it has and that helps drive the performance. So it would be an unattractive position for the company to be in. The price of getting there has to be compelling for our shareholders and that's the position we've adopted.

James Thompson,
The Independent:

Roger, whilst I've got you I might as well ask - 16 to 18% as a margin, you compare that with some of the other big FMCG

groups it is still relatively low against some of the others in the market. Have you got any comments on whether analysts are happy at 16 to 18% or whether they want you to get to the 20s or what?

Roger Carr:

I have no idea whether analysts are happy; it's just not a judgement I can make. I mean I think - Todd?

Todd Stitzer:

It's best in class in confectionary and it's best in class in food. In health and personal care it would be top quartile but it wouldn't be best in class. And as judged against - you know we're a food company and a confectionary company and I think that's a motivating goal to be best in class in food and confectionary. I think you know four years now when we're back telling you our net four year plan, you know we'll think about that. But I mean - I think 16 to 18 is an excellent progression in the context of the world in which we compete.

Adam Leyland

The Grocer

You've mentioned the under performance of Kraft's shares and how that's uncertain value. Are you then saying to Cadbury shareholders that you expect the shares won't recover - unlike Warren Buffett for example who said they're under valued. Obviously an interested party but - ?

Roger Carr:

You know the one thing we don't do is give investment advice really, so we should definitely stray away from that. And we would of course - you know just point our shareholders towards the facts and let them make a conclusions.

Adam Leyland

The Grocer:

And you see the facts that they've had shaky performance and that's likely to continue?

- Roger Carr: We don't know what their future is, we know their past is clear to all - it has a been one of declining margin and declining share price performance.
- Todd Stitzer: Page 11 of our circular has two bar graphs you can decide for yourself - that show their share price performance for the last eight or nine years, versus their peers.
- Andrew Bonfield: It was interesting in the document though that they did refer to 2009 earnings for their multiple, whereas they referred to 2008 for ours, which they knew was actually very low as a result of the growth and improvement this year. So obviously top and tall as you wish.
- Roger Carr: But we're focused on the positive things about Cadbury rather than the weaknesses of Kraft.
- Female: Obviously you've spoken a lot about the Vision into Action plan, does this mean that it might be easier to split off parts of the business and is that something that you have considered as part of your defence?
- Todd Stitzer: No, frankly we've constructed a business over several years to be as productive as it possibly can. So we have no plans to - I mean we've just separated almost half again the size of our business in demerging beverage and disposing of some unproductive assets. So I think we've worked hard to fashion a portfolio that's high growth, high margin and fit for purpose going forward.
- Roger Carr: We'll do one last one, I'm afraid that time is against us now. So Steve we'll give you the last one.

Steve Hawkes, The Sun: Just one small one, I just wondered if you'd seen a marked increase in any particular chocolate that you sell in the UK as people do rally round your business and buy a bit more?

Laughter

Roger Carr: Well I'm eating more.

Todd Stitzer: Absolutely.

Laughter

Roger Carr: You know we've got great support from the people really and it's been - you know warming and welcoming that we can see people out there that really care about Cadbury. And we will continue to mount a robust defence for all those people as well as the people within the organisation and our shareholders.

Thank you all very much indeed, it's been good to see you and we'll I'm sure see you again.

END

10.29