

**Cadbury Schweppes 2007 Interim Results
3pm Analyst and Investor Conference Call
1 August 2007**

Todd Stitzer, Chief Executive Officer

Good afternoon ladies and gentlemen, or for those of you in the US, good morning. Welcome to the conference call for our 2007 Interim Results. I'm Todd Stitzer, CEO and I'm joined by our CFO, Ken Hanna.

Before we take your questions, I'll provide you with a brief overview of our performance in the first half and then make some comments on our outlook for the full year.

But first, a quick update on the Americas Beverages separation process. As I'm sure you are aware, last week we announced that given the volatility in the debt markets, the Board had decided to extend the sale timetable to allow bidders to complete their proposals against a more stable financial backdrop. The sale process is ongoing and interest in the business remains strong. Should debt market conditions not stabilise sufficiently, we are fully prepared to pursue a demerger process.

Americas Beverages itself is continuing to perform in line with expectations, with underlying revenue growth of 5% in the first half. Higher commodity prices have been largely offset by price increases. The business is competing strongly in tough

market conditions. Our market share of carbonated soft drinks is up 70bps and non- carbonated soft drinks share is up 20bps.

As a result of the ongoing process, Americas Beverages is classified as an asset held for sale and so is reported in discontinued operations in these results. Therefore the numbers you are looking at today in the press release, and the focus of my comments, will be on the confectionery business.

Our revenue, at just over £2.3bn, grew 6%. It is particularly pleasing to see strong high single digit growth from our focus brands, customers and markets. We believe these will be the key drivers of our growth in the future.

We also saw continued double-digit growth in gum and in emerging markets. In fact it's our third straight year of double digit growth in both - a pretty outstanding track record!

Our underlying operating margin was 30bps below this time last year, as we guided in February, reflecting our planned investment in growth, in particular the entry into the UK gum market where we've successfully launched Trident Splash and Trident Soft. The problems in Nigeria which we discovered at the back end of last year also impacted margin.

The interim dividend has increased very significantly: by 22% to 5.0p. This reflects our confidence in the prospects for the new confectionery business going forward.

On 1 July we put in place the organisation for the new confectionery business. Now I will briefly take you through our performance in each of the new regions:

At £1.5bn, Britain, Ireland, Middle East and Africa, BIMA, is our biggest region in terms of revenue, accounting for just over 30% of the total in 2006.

First half BIMA revenue growth of 2% was impacted by the phasing of results from Nigeria. If results from Nigeria were normalised, like for like revenue growth in the region would have been 5%, driven by the successful launch of gum in the UK and by a strong performance from our emerging market businesses, which grew by 15%.

I am delighted with the early success of our gum launch in the UK, which has exceeded our expectations. We are holding our market share comfortably over 10%, in a market which is nearly 20% ahead since our launch.

The UK confectionery market has returned to growth in 2007 and July in particular was a very strong month for us compared to last year. We expect revenue and share performance in the UK to improve through the second half, albeit partially offset by the temporary closure of our candy factory in Sheffield as a result of the flooding in the North of England last month.

Our next region, Europe accounted for 17% of revenues in 2006. First half growth in Europe was driven by gum and Halls, the latter growing by 29%, with particularly good performances in Russia and Poland and a successful launch in France. We continued the roll-out of centre-filled in Europe, launching in Russia and Turkey in the half. Centre-filled is now in 12 markets in the region.

Turning to the Americas, which in 2006 contributed 27% of revenues. Revenue continues to grow strongly, with developed markets up 9% and emerging markets up 15%, giving a total of 12%. The stand out achievement of the Americas performance is our US gum market share which now stands at 35% - an all time high and some 8% ahead of when we acquired the business back in 2003. Additionally, the price increases that we put through in March of around 10% have been followed by our main competitor and are holding.

And finally Asia Pacific, which in 2006 accounted for a quarter of our revenues and profits. Revenues grew by 5% in the first half, driven by a 13% increase in emerging markets. The region has been impacted by extremely hot weather, which while not so helpful for confectionery, was good news for our beverage business in Australia, which has also benefited from share gains in a strongly growing market. Our star performer was again India, where revenues were ahead by over 20% with all categories – chocolate, candy and food beverages contributing to the result.

Ladies and Gentlemen, our business is at the beginning of a new journey a journey which will see us focus on a goal of becoming the biggest and best confectionery business in the world.

We are already the biggest confectionery company

And while we've made a lot of improvements over the last four years ... as we described in June, we still have significant under-exploited potential ... particularly in cost reduction and margin growth.

Following detailed reviews of our confectionery SG&A costs and global manufacturing footprint, we're confident that the business can achieve a real step-change in margins and returns by re-configuring our confectionery business model.

The plan we announced in June seeks to embed a much more centrally driven and focused commercial strategy - grounded in the concept of fewer, faster, bigger and better programmes - to reinforce growth while at the same time significantly improving our margins.

A major cost reduction plan lies at the heart of our ambition to drive our margins from a 2006 level of around 10% to mid-teens by 2011 ...

But margins will also benefit from a greater focus on profitable growth and from improving our commercial performance in a number of under-performing markets.

Since we met in June we've continued to work on our plans, particularly to deliver aggressive reductions in SG&A beginning in 2008.

We've started to see improvements in performance of Russia and have completed the first phase of refocusing our business in China.

And our focus on profitable growth through a combination of positive mix and pricing, has delivered solid operating leverage in the first half, most notably in the Americas.

However, as we said at the beginning of the year, 2007 will be another year of significant re-investment in future growth, particularly in the UK as we launch gum and seek to re-invigorate our chocolate business after a difficult 2006.

In addition, we do have further commodity cost increases to absorb, notably in dairy.

This means that we are unlikely to see margin progression in the full year.

In 2008, we expect the actions we are implementing to reduce our costs to lead to significant savings, particularly in SG&A.

At the same time, we expect our investment in growth to increase broadly in line with revenue. This investment will be focused on brands, markets and customers which can generate the highest growth and returns.

In the first half of 2007, increased growth investment and improved commercial execution in the marketplace drove revenue growth of 6% despite relatively slow starts in two of our biggest confectionery businesses in Britain and Australia. We expect our good revenue momentum to continue in the second half.

Ladies and Gentlemen, we look to the future with confidence and to achieving our goal of becoming the biggest and best confectionery company.

Thank-you for your attention.

We will now be pleased to take your questions.

Jonathan Feeney, Wachovia:

Just an update if you could a little bit on the beverage spin. It seems like with the meltdown in credits markets that it's all over the media. I'm pleased you don't have any sub prime exposure yourselves but it does seem like a return of credit markets to levels that could sustain the kind of valuations from beverages, banded about a few months ago in the London media, are somewhat unlikely to come back soon. So what's to stop you for spinning that beverage business? You're already

carrying it as a discontinued operation. You've already announced that's your plan. What's to stop you from spinning it sooner rather than later?

Todd Stitzer, Chief Executive Officer:

Well there's nothing to stop us. We put in our announcement that if the debt markets didn't adjust themselves we were fully prepared to consider such a transaction.

Jonathan Feeney, Wachovia:

And what kind of timeline would you put on that, if any?

Ken Hanna, Chief Financial Officer:

Just to reiterate: we said back in June we're working on a dual track. We have been working on a dual track, we've done a lot of preparation but, as I said on our call this morning, it's only three days ago that we extended the timetable and it's a very competitive process so we'd rather not go into timetable at the moment. We're still hoping for a sale but we have the de-merger option well under control. So we'll update the market when appropriate.

Jonathan Feeney, Wachovia:

You talk about mid-teens operating margin by 2011; I hear that was very well-received back in June and I think it's very consistent with what the company can do. But wouldn't it be helpful to maybe give folks, you know, you put some volatility in the stock price here, a little bit more comfort? You're talking about the

second half of 2007 taking margin-enhancing actions. Can you, are you at any point going to give us any intermediate sign points along the way? Because here you told us about this expansion, yet factors, other factors have gone down about 30 basis points right now. Can you give me any more comfort about how quickly that market expansion can happen in confectionery?

Ken Hanna, Chief Financial Officer:

What we said, Jonathan, in June is that we expect margin enhancement in 2008. There's no getting away from that; that's why we're taking very significant cost-cutting actions in the last quarter of '07 particularly as it relates to central costs as the group separates. So we're expecting margin progression in '08 on the start of the journey and we stick by that comment. Let me just make it clear to you and other people on the call, that although margins are down in the first half we've not sought to produce a litany of adjustments but just remember two things when you read the press release: margins are down 30 basis points *after* investing 40 basis points in the UK gum launch costs and a 40 basis points adjustment for the phasing of Nigeria. So without that margins would've been up 50 basis points. Fundamentally the business has not lost pricing power. It's a controlled investment; these are pre-planned investments to launch into the UK gum market in particular.

Jonathan Feeney, Wachovia:

It seems like you have some very impressive and exciting market expansion targets over the next five years and it seems like the stock isn't really reflecting that.

When we have the future for the Americas Beverage business settled can we expect any kind of substantial share purchase? Can you update us on your think about returning capital to shareholders?

Ken Hanna, Chief Financial Officer:

We did say back in June when we were planning and leading with a sale we would return, other than tax and transaction costs and allocation of debt [and a contribution to the Cadbury Schweppes pension schemes], we'd return all of the proceeds to shareholders. If we go ahead with the sale that is still our intention and obviously if we go ahead with a de-merger it's a different set of ratios.

Jonathan Feeney, Wachovia:

I guess that's what I'm getting at. If you went ahead with the de-merger, would you plan to buy back some stock to return capital to shareholders still?

Ken Hanna, Chief Financial Officer:

I think that is too early to comment on that. It depends how much debt you put in the de-merged entity. There are lots of things that we have worked through and have some options.

Todd Stitzer, Chief Executive Officer:

We're certainly reviewing that option however.

Thomas Russo, Gardner, Russo:

Ken you'd mentioned that the 30 basis point decline was after the 40 basis point UK [investment] and 40 basis point Nigeria decline in margin. And I think you then said that they were pre-planned and so I hope Nigeria wasn't part of that pre-planning.

Ken Hanna, Chief Financial Officer:

No, absolutely correct. Thank you for picking that one up Tom.

Thomas Russo, Gardner, Russo:

Gum was clearly so and I hope Nigeria wasn't....

Ken Hanna, Chief Financial Officer:

Nigeria is just phasing. We booked all of the correcting actions for the overstatement in the second half of 2006, therefore the first half unadjusted was overstated.

Todd Stitzer, Chief Executive Officer:

And that'll reverse itself in the second half so you'll have an equally positive impact from Nigeria in the second half.

Thomas Russo, Gardner, Russo:

On the notion of the dual track: were you to spin, is your capital structure set up in a way that would permit both [companies] to get the proper balance of capital

structure? How would that work? If you were to do it, how would you envision sharing leverage and sharing the balance sheet between the two?

Ken Hanna, Chief Financial Officer:

I think that's too detailed to go into on a call at this stage.

Todd Stitzer, Chief Executive Officer:

I'll just remind you that we only extended the timetable for the sale three days ago. We have a series of options; we're still working with interested buyers on a sale but when we're ready to change our minds and go public on a de-merger, we'll be more explicit.

Thomas Russo, Gardner, Russo:

And then, Todd, more broadly, some of the steps taken recently obviously there has been a fair amount of activity at the company and I wondered to what extent you're balancing a sense of needing to act soon on the M&A front in confectionery, for instance, with the long term plan that you've built underway? There's been a flurry of acquisition activities which sets the business farther down the confectionery road, which is admirable but awfully quick. And then the other side of that would be China where there's an abandonment of 200 markets that were investment spend markets and I want to be make sure that you reassure us that by foregoing the investment spend with a positive look to earnings is in fact net present value enhancing at the same time as it earnings enhancing.

Todd Stitzer, Chief Executive Officer:

Well, let me take them in order. As it relates to M&A, we announced three relatively small transactions. It's about £300 million worth of bolt-ons, each of which had been worked on for almost a year apiece. They all happened to cluster at once. We certainly don't have any similar deals in the oven. We're very focussed on the operating plan that we shared in June as it relates to the confectionery business. Certainly we have a fair degree of accomplishment in integrating acquisitions in a value creating way so I'm not particularly concerned with that and you shouldn't be concerned that we're out jousting after acquisition windmills.

Thomas Russo, Gardner, Russo:

And those had been pipeline deals?

Todd Stitzer, Chief Executive Officer:

Absolutely. Again, they're all deals that we identified quite a long time ago and it's certainly not a knee jerk reaction, we can do bolt-ons and it's part of our confectionery strategy.

As it relates to China, we did the unwise thing of expanding distribution far beyond our marketing support lines and our management control lines and they were just not profitable markets in which to invest so we've retreated to 17 cities which have quite a substantial population. You know, we're not talking about retreating to some small corner of China. They're the biggest cities in China that we think we can actually generate some critical mass and some success in. So, for example, sales in

China were down 18% in the first half, reflecting the fact that we've withdrawn from those markets.

Thomas Russo, Gardner, Russo:

What's the growth rate in the ones retained?

Todd Stitzer, Chief Executive Officer:

Mid double digits.

Thomas Russo, Gardner, Russo:

That's good. And last, it looks like both Brazil and India continue to storm along favourably. Any particular colour on those two markets?

Todd Stitzer, Chief Executive Officer:

We've been in India for 55 years. Cocoa trees in India are called Cadbury trees; we have huge brand recognition; our food drinks business which is fed to Indian children in the mornings is growing; the middle class, as you well know, is expanding in India and our product is a hugely aspirational middle class product; we launched centre-filled Bubbalo Bubblegum at the beginning of July. It's just an outstanding market. You know, the economy is growing 8% to 9% and has done for three or four years. We have got a tremendous manager who was an experienced Unilever manager in Africa as the head of the business. So it is doing wonderfully.

Brazil - same story but focused on gum and Halls. We've got a tremendous Trident story there, a tremendously strong route to market. I think you were in Dallas a couple of years ago and heard Marcos Grasso. I think one of the great positives for the future in Latin America is that in Mexico we launched Trident Splash in the first half. Mexico revenues were up 13%. Mexico probably has the highest margins of any business in North America and we plan on launching centre-filled gum in Latin America. We launched it in Costa Rica and Guatemala –and the Dominican Republic as well. So a lot of room to grow in Latin America using existing innovations and just getting it to white spaces.

Holly Abitz, Blackrock

A couple of questions: can you tell us raw material exposure in the quarter? You mentioned at the beginning of the year you thought raw materials would grow in line with revenues of the 4% to 6% so I am wondering if you can tell us if it is worse than that and expectations for the second half. That's one question and I will follow up after that.

Ken Hanna, Chief Financial Officer:

Let me take you through the first half: a little bit of high fructose corn syrup impact on our continuing business particularly in Australian beverages but in the first half the majority of the input cost pressures were in our beverage business.

In the second half the change is milk. I think those of you who follow the sector, whether you follow Nestle, Danone or Hershey, or Kraft, everyone has been hit by

increased milk prices. Liquid milk is up around 10% and powdered milk around 50%. We use about two thirds liquid/one third powder so our cost increase is about 20% in the second half. We think everyone is in the same boat. Now it is a very difficult market to hedge; there's just not much hedging available particularly in liquid milk. So everyone is in the same boat and we are taking bold pricing actions. We did say on an earlier call today that you cannot guarantee to recover all of the cost increases immediately. There will be a lag effect but, as we indicated in June, we are going to be bold on pricing and we intend to cover our costs on milk exposure. So milk is the big issue in the second half.

Holly Abitz, Blackrock

Is there anyway you can quantify your full year estimate, what you plan to spend on gross investments and expectations for Fuel for Growth?

Ken Hanna, Chief Financial Officer:

Yes, Fuel for Growth we have actually put some guidance if you look on the website it's around £80 million of savings Fuel for Growth excluding Americas Beverages. Growth investment: we said we spent 60 basis points in the first half and for the full year it would be a bit more than that. This is a result of pre-planned investment such as UK gum, US Stride and UK chocolate - three of the bigger bets that we talked about in June - plus expansion in route to market investment in Latin America and Russia which, on all our markets in Latin America without exception, have grown double digits and they have benefited from route to market investments we have put in there.

Todd Stitzer, Chief Executive Officer:

I think it is also instructive to remember another thing we said in June which is, you know, in each of the last three or four years we have made growth investments, you know, in a significant amount. From 2008 going forward those growth investments will be, you know, managed to increase at about 4% to 6% rate which is a much different dynamic than the prior three years.

Holly Abitz, Blackrock

Now my last question - restructuring cost for the full year will be what?

Ken Hanna, Chief Financial Officer:

They will be in the region of £100 million of exceptional restructuring which will be charged below the line. That is the £100 million first year of £450 million we discussed in June which is the cost of our new programme. Then we will be taking around 50 basis points charge above the line as you will see in the press release which is called 'business improvement costs.'

Bill Leach, Neuberger Berman.

Let's talk a little bit more about the outlook for the EMEA division. I guess most of us would assume that would be a pretty easy comparison issue given the results last year. There are a lot of moving parts there but how do you feel about that segment's prospects for the full year given that you had a very weak start in the first half?

Todd Stitzer, Chief Executive Officer:

Well EMEA is comprised of BIMA and Europe. So I think the two factors for BIMA in the first half are the significant investment in UK gum, chocolate and the impact of Nigeria. If you were to take the impact of Nigeria out of the first half it [BIMA] would be up 5% instead of 2%. That is going to reverse itself to a large degree in the second half. If you remember, the recall happened June 23rd last year. So much of the weak comparatives that will be recycling for EMEA, as it was, will happen in the second half.

Bill Leach, Neuberger Berman.

So do you think the segment could be flat for the year roughly? You do not have the divisions yet but just on the EMEA segment as we see it right now.

Todd Stitzer, Chief Executive Officer:

No, I think that it will show growth. It will show some reasonable growth, absolutely.

Bill Leach, Neuberger Berman.

Despite the first half?

Todd Stitzer, Chief Executive Officer:

Yes.

Bill Leach, Neuberger Berman.

In your discontinued operations you show Americas Beverages profits down 27%. Does that include extraordinary items? I know currency must have been adverse but how is the business actually doing?

Ken Hanna, Chief Financial Officer:

The business is doing fine; unfortunately the way we have to show is a little hard to follow. It's after tax, discontinued is after tax and tax rates have gone up a little bit in Americas Beverages, it has had a 10% currency hit and, as we announced in February, we front ended quite a lot of product launch costs and marketing: particularly product launch costs for Accelerade, a new sports drink, product launch cost for Snapple Premium Teas and a new mainstream teas and a few other products. So we front ended a lot of marketing spend to get momentum growing. Fundamentally, the business is performing in line with expectations.

Bill Leach, Neuberger Berman.

Can I ask again, the full profit full year, would you expect that segment to be up in earnings or what?

Ken Hanna, Chief Financial Officer:

We do. The only reason I hesitate is because there's an extra three months of BG this year. We have a full year of BG this year and we had nine months of BG in 2006. So obviously there will be a little bit of margin dilution for having the extra three months of BG.

Bill Leach, Neuberger Berman.

I'm not thinking margins; I'm just thinking of the absolute earnings level in terms of valuing the business, if it's spun off?

Ken Hanna, Chief Financial Officer:

Yes, and it will be up.

Bill Leach, Neuberger Berman.

So both those businesses are obviously expected to do much better in the second half?

Ken Hanna, Chief Financial Officer:

They are.

Bill Leach, Neuberger Berman.

Last question: you have this new item, 'business improvement costs.' What is that and how does that differ from all the restructuring below the line?

Ken Hanna, Chief Financial Officer:

This is something we talked about last October '06 and confirmed in June this year. We said this is just a fact of life that there is a lot of garden variety restructuring that every big company does. And this is just normal restructuring that we will incur and managed around half a percent of revenue. The exceptional plant

closures and SGA and central costs downsizing is in the new programme that we announced on June 19th. So it is a recognition of the fact that there is an ongoing level of restructuring.

Bill Leach, Neuberger Berman.

So we should view that as operating earnings and not as separate?

Ken Hanna, Chief Financial Officer:

Yes you should, but this year there is no comparison. So there has been a 4% hit to our earnings in the first half and there will be roughly a 4% hit to our EPS in the full year as a result of the fact that it wasn't charged in that way in 2006.

Bill Leach, Neuberger Berman.

Right, but that is an ongoing charge more or less?

Ken Hanna, Chief Financial Officer:

It is an ongoing charge.

Marco Gulpers, ING:

There are two questions from me. The first is on the Wrigley announcement in gum in the US: are you seeing any competitive actions heating up in the US and what have you seen Wrigley doing in the UK specifically? The second is: could you give a little more flesh on the bone on the margin drop in Asia? Is that specifically related to the China restructuring situation or is there more to it?

Todd Stitzer, Chief Executive Officer:

I will take the first one which is a two-part question and then Ken will take the margin drop question. Wrigley has launched Five which is a product that is a stick-gum, a premium stick gum, meant I am sure to respond to our launch of Stride which now has about a six share in the market. We think that their investment in television advertising and promotion will ramp up in the second half; we are prepared for it but it is certainly something that is a big initiative on their part.

As it relates to the UK, they have put multiple innovations into the market; they have significantly increased their television advertising spend, their promotional spend. We have consistently recorded shares over 10% for the last three or four months. We went as high as 15%. We just launched our latest flavour variant called raspberry peach, and we have launched bottle gum. The market in the UK is up nearly 20%. So a market that was down 4% or 5% in the last two years is up 20%. We are benefiting from that significantly; so is Wrigley. We consider that productive competitive tension in a market place and we are doing well and I think if you took a sharp pencil and you examine the sum total of Cadbury gum growth in the first half and Wrigley gum growth in the first half you would find that we grew 15% and they grew 7% across our respective worlds. So, we think we are doing pretty well.

Ken Hanna, Chief Financial Officer:

Let me take the second question, which was Asia Pacific margins. If you look at the press release, margins have actually gone up; underlying margins have gone up 30 basis points. Probably not as much as we would have liked; they have had headwinds from sweeteners, from oil and from aluminium. So the beverage business in Australia has been hit by the same cost factors that we have had in Americas Beverages and prices have been put up significantly. Obviously they have not completely off-set each other. Margins have gone up 30 basis points. What you are probably looking at is after business improvement costs, which are the restructuring costs that have caused a dip in margins. You can see that revenue went up 5%, and underlying profits went up 8%.

Marco Gulpers, ING:

Did you now say that for the full year you are expecting the EMEA margin to be flat?

Ken Hanna, Chief Financial Officer:

No, we did not say that. We have not given any guidance by region. We will be reporting margins by the new BIMA and Europe segments. An earlier question asked whether revenues would be flat for EMEA and we said no, we expect growth in EMEA.

Andrew Wood, Sanford Bernstein:

I have got three questions for you, all of them really on margins. Obviously your top line was pretty strong so I think the market disappointment seems to be more

focussed on the margin lines. So I would like to dial a little down on that. But the first question relates to the H1 performance. It is true that you did guide in February that the first half was going to be tough in terms of margins, but certainly I had understood that to be more driven by Americas Beverages given the HFCS issue. I had not really interpreted that to be weakness in confectionery. Perhaps you can just clarify a calculation, a very simple calculation I have done. You have full year Fuel for Growth savings of £80 million. Assuming those are earned or gained evenly throughout the year, that is £40 million in H1. That equates to 170 basis points of Fuel for Growth benefits. If you add on top of that 6% top line growth and the tremendous leverage you are going to be getting from that, one would hope for well over 200 basis points of margin growth from Fuel for Growth leverage and top line leverage. So I cannot understand how you only have 70 basis points of Fuel for Growth savings and leverage in the first half. What I am I missing?

Ken Hanna, Chief Financial Officer:

Well it is about one third/two thirds fuel for growth split. That helps you just a little bit. We are taking it that you have picked up the investment in UK gum and other growth investment.

Andrew Wood, Sanford Bernstein:

Yes but that is afterwards; this is before the reinvestment line. This is the specific figure of 70 basis points you have for Fuel for Growth and leverage. I mean if I take - sorry to go into detail but for me I am clearly missing something here. If I

take one third of £80 million and divide it by your H1 sales I am getting 130 basis points of margin growth before top line leverage. So again, I can't understand why you've not done a lot better in your confectionery business in the first half purely based on a Fuel for Growth and top line leverage?

Ken Hanna, Chief Financial Officer:

Well I understand your point. On the chart we've lumped together Fuel for Growth, leverage, pricing, inflation all in one lump sum. It's all the other stuff that goes through the P&L accounts whether it be commodity costs; we have only called out UK gum and Nigeria. We've lumped it all together. In a £2.3 billion revenue business there's lots of ups and downs and mix, mix is a huge impact on our business as well.

Andrew Wood, Sanford Bernstein:

Ok so if I take that £80 million and I say that two thirds is going to be earned in the second half of the year, which is £53 million and I divide it by my estimate of what your sales will be, that gets me to 190 basis points of Fuel for Growth before leverage, then of course you've got the top line leverage. On top of that you've got 40 basis points positive from Nigeria in the second half to offset the negative from the first half which again gives me the impression that you could have outstanding, even if you take into account the 20 basis points [£20 million] of dairy costs, you could have outstanding margin growth in the second half of the year. So what else is driving your caution to say that your full year margins are not going to be much better than flat?

Ken Hanna, Chief Financial Officer:

Andrew, if we felt that we were going to have outstanding margin growth in the second half, do you think we'd have taken the grief of changing the guidance today? We wouldn't have done. So I think rather than go through line by line with 70 people on the call, I'd be happy to take this offline. There's obviously factors such as timing, phasing, when the price increases go in, there's a huge number of factors in the 60% of our business to go in the second half. I'm happy to take your detailed modelling questions offline.

Andrew Wood, Sanford Bernstein:

The second question then relates to central costs which I see were up 11% in the first half and you guided this morning that they'd be up to £175 million for the full year, which is another 10% increase year over year. The question I have is, in an environment where you are trying to start to demonstrate to the world that you are taking cost reduction seriously and you're going to make some major reductions in your cost base, is it not therefore strange to be guiding the market to another 10% increase in central costs in 2007? And a slightly related question: that 50 basis points of reduction in headquarters costs that you have committed to the market, is that based at least on the 2006 level of central costs or are you taking those savings on the much higher 2007 level of central costs?

Ken Hanna, Chief Financial Officer:

Remember what we said in June; central cost is not just the cost of the people working in Berkeley Square, it includes Global Commercial, Global Supply Chain and Global S&T [Science and Technology]. Like many of our competitors, we centralise the collection of these costs to make sure the costs are not duplicated around the world. So a large percentage of that cost is confectionery growth costs; that's largely where the cost increase for the year will be. In the first half there's some IT cost in there, Science & Technology cost, and some non-cash accounting charges for share based payments, for example accounting for stock option costs. So it's not out of control, I can assure you of that.

Andrew Wood, Sanford Bernstein:

The final question on margins is more of a generic question, and it's to do with the fourth year of your Fuel for Growth plan, and it's now looking like you will get at best, according to your guidance, flat margin growth in 2006. So that according to my figures means 50 basis points in year one, we were 30 basis points in year two, to zero in year three and zero in year four. Now clearly that is well below your expectations when you embarked on this journey. In retrospect, do you think there's been too much focus on generating top line growth and inadequate balance between generating decent top line growth and decent margin growth and having a balanced performance, rather than having good top line growth that you've had in the first half, but disappointments on margins in the first half, a lack of balance? Would you say that that's a correct statement? More importantly, how would you see that balance going forwards in the second half of this year and on into 2008 and beyond?

Todd Stitzer, Chief Executive Officer:

Let me take a crack at that, Andrew. In the period 2004-2006, we generated 400 basis points of margin from Fuel for Growth, we generated 200 basis points of mix and leverage for 600, we spent 200 basis points back in growth investment, we suffered 200 basis points in commodities costs that nobody foresaw, and we suffered 90 basis points from Nigeria and the product recall. If, as I am, you would be confident that it's unlikely that commodities costs are going to hit another 25 year high in the next three years, and if you're confident that Nigeria and product recall aren't going to happen again, and you're confident that growth investment which I said on an earlier answer will be in the 4-6% range as opposed to the very significant 200 basis points, or 50 basis point a year range, then I think there's a tremendous reason to believe going forward there will be balanced growth in revenue and margin. And were it not for the commodities, the product recall in Nigeria, we would have generated the margin that we said we would have and grown significantly.

Ken Hanna, Chief Financial Officer:

Andrew, just one more comment: if you remember back in 2003, Cadbury was growing at 2 or 3 % and Adams wasn't growing, so we put additional costs in to ignite growth. We've said that now that we've got the growth growing - you can never guarantee it , but we think we've got it growing and we have a machine that's much more effective than it was in 2003 - we are course correcting and

taking some of the additional costs out. So that partially answers your question, but we're taking some of that incremental growth cost out and course correcting.

Jeff Kanter, UBS O'Connor:

With respect to spinning off the beverage unit, I know that you're limited in what you can say, but with a lot of spin-offs what happens is there will be an appropriate amount of debt allocated and then a special dividend back to the company. Is that the game plan?

Ken Hanna, Chief Financial Officer:

I think we'll have to take a pass on that question. I would say that Americas Beverages business is a highly cash generative business and can take a good level of debt.

Jeff Kanter, UBS O'Connor:

And I appreciate that; I realise that it was a little unfair given what you are allowed to say. But is it fair to at least say - and I think you just mentioned this, Ken - that the leverage on the business would be comparable to what we see at the big three US bottlers?

Ken Hanna, Chief Financial Officer:

I wouldn't even be as precise as that; I would say that the leverage would be comparable with that of a business that turns 85-95% of its EBITDA into cash

which, again, we've told you before that depending on the equity conditions at the time we do a de-merger, if we do a de-merger, we'll take a view on it.

Jeff Kanter, UBS O'Connor:

Ok and obviously there's the market and from the reports that I've seen, there's a high degree of scepticism and it seems like a lot of people are convinced that you're going to fail. I got a phone call saying that the price of the sale of beverages is now £5 billion. If you could comment on that?

Ken Hanna, Chief Financial Officer:

Let's stop you there, Jeff, and let's not go any further; we are not going to fire sale a world class business. So I don't know who is bandying numbers like that around; they are absolute nonsense.

Jeff Kanter, UBS O'Connor:

Ok and that's the point of my question. I would imagine that there's also a number where the math doesn't work for a sale relative to a spin so whichever way actually makes the most sense for creating shareholder value, that's what you're going to pursue?

Ken Hanna, Chief Financial Officer:

Absolutely. Absolutely, you've answered the question.

Jeff Kanter, UBS O'Connor:

Also with respect to your restructuring program, a lot of the costs are cash so there's a lot of headcount. Can you give us an update on where we are? I know that you said it's a 2008 event but, you know, if there are cash costs, if there are restructuring costs, you can probably upfront a lot of them. Is that fair?

Ken Hanna, Chief Financial Officer:

Well no, we've charged £34 million in the first half as part of our new program. It's in the press release and there's a lot of detail. We've said that we'll spend around £100 million this year. The accounting conventions have changed over the last few years; you can't upfront lots of stuff now, you can only charge on the IFRS and US GAAP if you've told the people, made an announcement, consulted with the unions and have a done deal. So that's why we are only charging £100 million this year. We did say that '08 would be the first year of real benefits, which will be from central cost and SG&A and the factory closures will be slightly more back ended because they require us to move production around and consult with the unions.

John Cox, Kepler Equities:

To come back - I'm sorry to keep banging on about this whole de-merger auction - it seems to me that you're saying the auction is what you'd prefer and is the priority and a de-merger is secondary if you feel that the auction couldn't go through the way you want to, and you actually have some sort of target price in mind given the way you're talking about no fire sale. I'm just wondering what exactly do you mean by de-merger? Do you mean a part IPO to get some sort of like pricing visibility? Maybe you can just re-iterate what you were saying there, but

it appears that you are saying that you have a target price in mind when you mention these will be no fire sale, and you basically rule out that £5 billion figure?

Ken Hanna, Chief Financial Officer:

Well the £5 billion was an extreme number which would be around seven times EBITDA off the top of my head, between seven and eight times EBITDA. We would not sell a world class asset for seven to eight times EBITDA. We've used the words de-merger as a short hand for a public listing and separation of the business. There's different variations of that and at this point in time we prefer not to be drawn into precisely how, what, why and when. I stress again, we're in a competitive process, we're working on a sale, we have done lots of work on the de-merger and we really would prefer not to be drawn into answering questions in detail at this stage.

John Cox, Kepler Equities:

A second question on commodities: you're talking about milk prices being 20% higher in the second half of the year. Could you just remind us what milk is as a proportion of cost of goods sold and then I wonder if you could also talk us through some of the other prices at the moment like milk and cocoa, maybe even energy, because maybe some of that offsets slightly what's going on in milk? Or would you say you still see a pretty inflationary environment for commodities at the moment?

Ken Hanna, Chief Financial Officer:

We've said before milk is around 10% of our raw material costs. In confectionery, there's really three large commodities: milk, cocoa and sweeteners. The rest are largely spread over packaging and other ingredients. Sugar is coming down, it's also helped by a bumper corn harvest this year that people are expecting, and the price of corn and high fructose is coming down. So sugar is coming down.

At the moment, cocoa is up a bit. All of the majors in the world have got cover positions. None of us talk about them publicly because they are competitively privileged but cocoa is up a bit. It is very difficult to read cocoa because the main harvest season is August, September, October and it is in the lap of the gods, literally, depending on the climate and weather conditions in the next three months as regards the cocoa price. So cocoa is up at the moment but who knows where it is going to end up.

As regards oil - oil is up, as you know, but oil had a major, much more of a major impact to our beverage business than it does to our confectionery business. Ultimately it will, if it stays up where it is today, it will have an impact on energy prices possibly into '08 but, again, it is so volatile that it is impossible to predict but, in terms of materiality, it is much more important in the beverage business.

John Cox, Kepler Equities:

Can you tell us what is going on within the chocolate market and are you still seeing a premiumisation trend going on: are you still seeing strong growth in the premium end of that market? And what is going on in the more mass side of that

market and what sort of growth dynamics you are seeing there, drawing particular attention to those markets where you are present?

Todd Stitzer, Chief Executive Officer:

Well, we continue to see strong growth in premium products. Our Green & Black's product in the first half grew 17% but we are also seeing reasonable growth in the mass market, in the sort of 3% to 4% range. The UK market is actually our biggest chocolate market. The chocolate market is in growth in the UK in a 3 to 4% range. We grew at about one or two per cent in the first half. We chose not to get involved in heavy Easter discounting and we had a challenge on our Creme Egg products in February because of nut labelling. So, I think the UK market is surprisingly strong relative to lots of people's perceptions last year. We are also not in the middle of a product recall so we are a full participant in the market and that is helping. The weather in the UK has been eight degrees colder this July than it was last July, so all of those combine in the UK to make it a pretty good market.

In Australia, our second biggest market, there is heavy competition in a two retailer system. That market is growing 4% and we are growing and our share is up 70 basis points. In Russia, the market is growing 12% and we are growing pretty significantly. In South Africa, a market where we are also number one, it is growing 5% and we are growing pretty strongly around 4%.

So, I think the global chocolate market is driven by people's desire to have a small treat and some luxury, and I think people like to make hay with all kind of views on

whether obesity and health concerns are going to destroy the chocolate market. We certainly do not see that in our business. Our chocolate business in India is growing 20% where consumers are absolutely keen to participate in that phenomena. Does that give you a perspective?

John Cox, Kepler Equities:

Yes, that does. Thank you very much and congratulations on the top line as well in H1.

Chris Pelinsky, Jennison:

As far as the beverage separation goes, just comparing a sale versus a de-merger, are there any changes in terms of incremental costs or tax leakage?

Ken Hanna, Chief Financial Officer:

No Chris, tax leakage would be essentially identical between the two routes.

Chris Pelinsky, Jennison:

Ok, and so I guess by your comments indicating you have been on this dual track, you have been incurring costs for a potential de-merger if you had to go that route anyway. So nothing incremental to be expected there?

Ken Hanna, Chief Financial Officer:

Not from a Cadbury point of view. Clearly the beverage business has to recruit a few more people in a public environment than a private environment.

Chris Pelinsky, Jennison:

And then as a follow up to Andrew's question, as you are laying out these multi-year margin targets, I am struggling to reconcile the divestiture of the beverage business and an expanding margin goal with central cost increases that we have been seeing. And even on an adjusted basis, it looks like central costs are up 10 or 11%. What is driving that cost increase? It is a pretty big percentage number certainly, even if you do not believe the inflation data, certainly above a cost of living type adjustment. So can you shed some light on that?

Ken Hanna, Chief Financial Officer:

I understand why it would look odd and I just stress again that we gather a lot of costs centrally to control them. As we indicated back in June, from next year onwards we are going to start charging these back to regions because holding them at centre leads to obvious questions such as you and Andrew. They include things like major IT programmes, Science & Technology, the move to the category structure and some non-cash accounting. In that number for example, there is a number of £25-30 million of non-cash accounting charges for long term incentive schemes that you have to accrue over for three years. So, there is a lot in there that is not just heads, and we tried to be much more transparent on that when we had a presentation in June and we will continue to be so because I can assure you the head count in the central costs is going down. The increase is large, growth investment type of projects.

Chris Pelinsky, Jennison:

So, on a like for like basis in corporate headquarters, are expenses flat, down?

Ken Hanna, Chief Financial Officer:

I cannot give you an answer. I will be wrong to guess. We are splitting that number between confectionary growth costs and corporate costs. I have not got a number off the top of my head but we can get it for you.

Todd Stitzer, Chief Executive Officer:

Just an example of a dilemma. In the second half of 2007 our rent at Berkeley Square is going to increase by a substantial amount but in February of 2008 we are moving to a new building where our total rent is going to go down by a very significant amount. So, we are just in this space where a number of ongoing things are going to go up and we are going to take pretty immediate action in '08 to take them down. So, our rent's going up in the second half and it is part of whatever the central increase is but it is going to go down pretty damn fast in 2008.

Chris Pelinsky, Jennison:

So we should suspect not only from a cost cutting standpoint but also from a reporting standpoint that maybe we will get a truer, more transparent look at the underlying HQ costs and will see maybe some of these investment related costs spread out within the regions? And these will more clearly reflect what the true cost profile is of the businesses?

Ken Hanna, Chief Financial Officer:

Yes, absolutely, but just to put this into perspective, we obviously look at our benchmarks; we look at how our competitors report. One of our largest competitors, has a much higher percentage of costs held centrally than we do and that is how they control their [costs]. For example, they have their global science and technology held centrally. Those of you who follow a well known gum company, has its three regions have circa 30% margin and the group has circa 18% margin because it takes a huge amount centrally. That is how we do it but, again, we will be more transparent showing you true central costs from '08 onwards.

Chris Pelinsky, Jennison:

There was some mention of it in the notes in the press release: I believe you indicated that you were going to use some of the proceeds from a beverage sale or de-merger to kind of true up the pension fund as well. Is that still accurate and can you just update me? It looks like you made a contribution yet I was a little confused in reading the note whether you are fully funded or under funded or where we stand as it relates to the whole pension scenario and potentially use of proceeds from any de-merger or sale of beverage?

Ken Hanna, Chief Financial Officer:

We had, as at the end of '06, a very small, in relative terms, deficit. I am saying relative compared to other global multi-nationals. It was £200 million deficit. As at the end of June, as a result of the strength of the equity markets and the movement in bond prices, we had a small surplus. We are in the middle of an

actuarial valuation, and as is common with all other pension valuations, we will be looking at mortality rates and it is impossible to guess at this point in time what our final deficit or surplus will be after this valuation is completed. What I did say in June is that I think that any pension top up will be relatively small. It is not a huge number in the scale of the potential value of Americas Beverages.

Chris Pelinsky, Jennison:

Then I guess my last question, kind of more philosophical and maybe even getting into semantics but you have done a great job in terms of accelerating the revenue growth, and we have had some fits and starts in the margins but I guess in an effort to improve the quality of the earnings you are now including the business improvement charges in terms of 50bps on an annualised basis in the results. If that is ultimately the tack being taken and the goal is to effectively enhance the quality, should that growth investment not be included into that, in terms of that fact that it costs money to leverage and to take a growth profile from 1-2% to 4-6%. So I guess that on an ongoing basis we should expect that. I mean you can see the conundrum; it is almost like you cannot have your cake and eat it too in my mind in terms of celebrating the success of the top line improvement without acknowledging that there is a cost behind it or accounting to break it out as a bit of a one off.

Ken Hanna, Chief Financial Officer:

We tried Chris. It is a very valid point and a number of other commentators and analysts and shareholders have made the same point. We have tried not to be too

picky in adding back stuff and deducting stuff. We really have, but your point is particularly valid if you look at the 40 basis points of costs we have voluntarily incurred in the first half to launch UK gum. That is building up an annuity stream in a high growth market that will benefit the company going forward. It is like an acquisition cost, if you like. We are buying into a market and we will have an excellent business. We are very convinced of that. We have just tried to demonstrate that; we have not tried to add it back or account for it differently and for the last three years we have demonstrated the growth investment. I think we just need to highlight it to our followers and they can take their view. If we had not been into UK gum this year, there would have been a different dynamic on our P&L account.

Todd Stitzer, Chief Executive Officer:

And Chris, let me re emphasise, the aggregate amount of growth investment is now baked into our P&L and it will only increase at a rate of about 4 to 6% going forward which is a lot different than it has over the last three years.

Chris Pelinsky, Jennison:

So to your point you feel like you have made the big front loaded, up front investment in a number of these key markets and so it should revert to a more normal kind of flow, if you will, on a go forward basis?

Todd Stitzer, Chief Executive Officer:

Yes, we believed in 2003 that we had a significant amount of catch up investment to do in growth related capabilities: Science & Technology where we have doubled our investment in S&T; capabilities programmes to have a consistent way of selling and marketing across the company; segmentation studies to understand the consumption of our products across 80 markets. I mean, all those studies and investments have been made and what we are looking at now are basically maintenance costs to keep them updated, to keep them fully functional. So, we think that is another reason why we will be better able to deliver margin going forward.

Well thanks everybody for your time and attention this afternoon. This is a continuing story; we had a great dialogue in June, we continue to deliver on the top line and we continue to create a world where we will deliver on the bottom line as we get into 2008. So we appreciate your interest, your patience, your investment and we will certainly keep you posted on any developments around the beverages business. Have a great day.
