

**Cadbury Schweppes Preliminary Trading Update
9am Analyst and Investor Conference Call Transcript
11th December 2007**

Todd Stitzer, Chief Executive Officer:

Good morning ladies and gentlemen, I'm Todd Stitzer and I'm joined this morning by our CFO, Ken Hanna.

As I'm sure you know, we've issued a trading update this morning ahead of our year-end in a few weeks time.

I'm pleased to report that our confectionery operations have continued to perform strongly over the past two months since we last commented on trading in early October.

As a result, we are raising guidance for the confectionery business in 2007 for both revenue growth and margins. .

In relation to revenue, we expect confectionery revenue growth to be above the top end of our new annual revenue growth goal of 4-6%.

In relation to margins, we had previously guided the market that we were not expecting to increase underlying confectionery margins this year largely due to higher input costs... Given the strength of our top-line performance during the year, we now anticipate delivering a modest increase in confectionery margins this year.

We are also reporting today on our US beverage business. While markets there remain challenging, our business continues to outperform.

Most of you will be aware that we are separating our beverage and confectionery business and I can confirm that plans for the demerger are on track with our timeline for this to complete in the second quarter of next year.

Let me briefly provide more detail on performance.

Starting with confectionery.

Our underlying confectionery performance has clearly been very strong this year driven by continued double-digit growth in gum and emerging markets. However, performance has also been boosted by the recovery in our Great Britain chocolate business, the launch of gum in Great Britain and an exceptional year in US gum.

In Great Britain, our 2006 comparatives were weak as the business was impacted by a major product recall and the hot weather. We have also benefited from the launch of a Glass and a Half Full Productions with the hugely successful Gorilla ad', and the relaunch of the much-loved Wispa. The business has also benefited from the successful launch this year of the Trident brand.

Our Americas confectionery business is having another outstanding year with strong momentum across the region driven by gum category growth, share gains and innovation.

Our gum share in the US is up 300bps year to date with Trident and Stride again key drivers. We have now delivered share growth in gum for 36 consecutive months with our share at nearly 35%! It is interesting to recall that when we bought Adams five years ago our US gum share was 27% and had been declining for a number of years.

Asia Pacific has had a more difficult 2007, after a number of very good years. In Australia, ownership changes in the retail market have been challenging for the business with a significant increase in competitive activity. And in the emerging markets in the region, our important business in Thailand has been impacted by the difficult political and economic situation there.

However, our business in India has continued to perform exceptionally well, boosted by the successful launch of bubblegum early in the second half.

As most of you are aware, in line with the rest of the food industry, we are experiencing considerable cost inflation.

Commodity inflation for our confectionery business has increased in the second half, particularly for dairy products.

We have started to pass on these increases in the form of higher prices across most of our businesses, though most of this benefit will only be felt in 2008.

While the broader economic outlook for 2008 is uncertain, we are confident that the momentum we have enjoyed in 2007, driven by significant investment in growth and capabilities, will feed through to next year.

Moving on to Americas Beverages.

2007 has been a challenging year for the US beverage industry but the market has improved in recent months and we have continued to take share in CSD's .

The main drivers have been improved performance from Dr Pepper, the continued growth of core flavour brands like Sunkist, A&W and 7UP, and Snapple which is reaping the rewards of the steady stream of innovation through the year, primarily in super premium teas.

As we reported in October, the launch of Accelerade, our new sports drink, has been disappointing with launch losses expected to be around £30m in the year. Going forward, we have decided to focus our efforts on a narrower range of channels and do not expect to incur further losses.

For the year as a whole, given the good revenue momentum, we would expect Americas Beverages like-for-like growth to between 4% and 5%. The business remains on track to deliver a modest improvement in underlying profits with margins diluted by the consolidation of bottling acquisitions and the losses incurred on the launch of Accelerade.

Looking into next year, given the further strengthening in the oil price, we expect Americas Beverages' commodity inputs to be at the upper end of the 5% - 6% range indicated at our October trading statement. As also indicated at the time, we expect the lost contribution from the termination of the Glaceau contract to be around £20m although this will be more than offset by the absence of Accelerade launch losses. In addition, management are making very good progress on the cost cutting programme announced in October and are on track to deliver £35m of cost savings during the year.

In summary, we are having a strong year in confectionery with revenue performance clearly benefiting from several years of sustained investment behind growth and we continue to make good progress on our confectionery efficiency initiatives.

Americas Beverages is performing well in challenging market conditions.

Cadbury Schweppes is a resilient and focussed organisation. As we prepare to separate our confectionery and beverages business and look forward to the close of the year, I would like to take the opportunity publicly to thank all employees of Cadbury Schweppes for their incredible hard work and dedication in what has been another challenging year, and I wish you all a happy and restful holiday break.

We are happy now to take your questions.

Warren Ackerman, Dresdner: Two questions for you, the first one is on pricing generally. Can you perhaps elaborate where you can on pricing that you've taken in Confectionery and also in beverages: the quantum of the pricing that you're taken and perhaps if there's been any volume impact from that pricing and whether you expect any further pricing increases from here? And just a second one, is there anything more you can say on the fact that Nelson Peltz has increased his stake in Cadbury and the intentions of the Qatari Investment Authority? I notice on Bloomberg you've said that the increase in the stake by Nelson Peltz wasn't a surprise. I appreciate it's quite a sensitive issue but is there anything you can add to that, that would be helpful.

Todd Stitzer: Well I'll take the latter question first and then Ken will comment on pricing. We have a policy of not commenting on the substance of our conversation

with shareowners and I think that is the most appropriate policy to take. So I think that's all we would say, so I'll pass it over to Ken to talk about pricing.

Ken Hanna, Chief Financial Officer: Ok Warren as you know the biggest price increase in 2007 was on US gum which we took in April and there's still 3 or 4 months of benefit of that to come through into 2008. But I think you're probably more interested in the chocolate markets from the middle of 2007 when dairy prices increased very significantly and we'll have another impact in 2008. You will see the main benefit of chocolate pricing in 2008. There is a lag effect because many of the deals for the Christmas season we'd already sold into the retailers ahead of the dairy price increase, and it was very difficult to renegotiate terms from agreed deals. So there will be some little benefit in 2007 but for chocolate we have to get *circa* 5% price increases through in chocolate to cover our costs, and you'll see the main benefit of that coming through in 2008. As for the rest of the pricing you know there's not another big jump in US gum prices because we raised prices 10% last year, and the rest is inflationary price increases on candy products.

Warren Ackerman: Just on the UK and Ireland business generally: I think at the Q3 stage you indicated that you still expected share gain in chocolate and obviously in gum. But I think you said at the time sugar confectionery in the UK had been impacted by the flooding in Sheffield and that share was down. Could you just update us where you are on those three sub segments within the UK since the third quarter?

Ken Hanna: Let me start with sugar. Sugar's come back up a bit obviously with our Sheffield factory which was closed for effectively eight weeks now back online. We are still going to end the year down because we lost quite a bit of sugar sales in the peak three months of relatively warm weather. So our sugar or candy share will end

the year down a bit but it's improved certainly in the last quarter. The UK chocolate market has grown double digits in the second half of the year, and this is obviously IRI/Neilsen data driven by lots of factors including a cooler summer, our recovery from our product recall, a large amount of innovation and I think a huge amount of marketing and new products from all of the competitors. We have gained share strongly in the last 12 weeks and strongly in the last 4 weeks. But the critical Christmas season is still to come and I think as we indicated back at the half year we didn't chase low priced Easter volume and we're not chasing low priced seasonal volume now. I think we'll be able to show you we had a good Christmas season but we're not chasing low margin business.

Todd Stitzer: Warren just let me return to the first question. We put out a press release yesterday that indicated we were aware of an increase in an interest and you would know that UK companies keep track of their register. So my words "not surprised" are just an indication of good corporate diligence about how we track our shareowner register. So there should be nothing read into those words positive or negative; we're just keeping track of our register the way anyone would keep track of their register.

Warren Ackerman: Could you at least say whether you've actually had any contact with the Qatari Investment Authority or is that not possible.

Todd Stitzer: I really can't comment on conversations and contacts with share owners.

Julian Hardwick, ABN Amro: Just carrying on from what you said on pricing at the Q3 stage. I think you indicated price mix was around 5% at Q3, is there similar picture

for Q4? Also, just in terms of the regional share trends, you indicated Asia Pacific is stronger in Q4 than in Q3. Could you just give us a bit of a feel for the relative performance of the other Confectionery regions Q4 versus Q3?

Ken Hanna: Let me start with Q4 pricing. Q4 is not finished yet but Q4 includes a higher percentage of chocolate than quarter 3 for obvious seasonal reasons. And as I mentioned we've not been able to get through some of our chocolate pricing in quarter 4. We've had some through but there is obviously a lag effect when we are negotiating with retailers. So I don't think you'll find the pricing percentage of our revenue growth in Q4 as high as it was in Q3; it will still be positive but it won't be 5%, just because of the mix.

Todd Stitzer: On the second question about Confectionery performance: I think if you look at the other three regions and their performance last year in the fourth quarter they all had very strong fourth quarters. And while our momentum in each of those regions continues to be quite strong I'm not sure it will be as strong as the third quarter, as compared to Asia Pacific which will be stronger than the third quarter.

Julian Hardwick: And just one quick technical one for Ken: the Glaceau payment from Coke, you're taking £35 million of it as a non-underlying profit and presumably the other £10 million goes in underlying profit. Could you just explain the rationale for that?

Ken Hanna: Yes it's £5 million that goes in underlying and £35 million is non-underlying. So £5 million is the remaining 2 or 3 months on a pro rata basis, it's just November and December allocation if you like. £5 million of it is allocated to an acquisition so

there's only £5 million that affects underlying. We have to pay £5 million back to the SEABEV acquisition owners because it was a part of the sale and purchase agreement.

Julian Hardwick: OK, so you're net you're getting £40 million?

Ken Hanna: Net we're getting £40 million.

Polly Barclay, Cazenove: I'd just like to hear your comments on the long term goal range of the 4 to 6% for Cadbury plc in the light of the very strong organic performance that we've seen this year, even normalised for the UK product recall.

Todd Stitzer: Polly, we determined a 4 year plan and described it to the market in June, 4% - 6% strikes us as the right range over a period of time. If you remember when we described our plans going forward in the context of becoming more focused and efficient we are subjecting ourselves to a fair amount of SKU rationalisation in our Confectionery businesses. So I think at the time we said you have to take into account at least a point of revenue growth every year for SKU rationalisation into the context of that range. So if you were to add a point the range would be 5 to 7% but we are actively reducing the portfolio and that's the reason why we're comfortable with staying with the 4 to 6% range.

Alex Smith, Lehman Brothers: I had a question on your full year Confectionery margin guidance which I think you said is likely to be modestly up in constant FX. I think if I'm right that FX had a negative 40 basis points in fact in H1 and I think you were expecting it to be neutral in H2, so down 20 (basis points) for the year. Is that still the case? It sounds like you are steering to a flat reported margin for the year.

Ken Hanna: I think the FX in the second half will be slightly less. I wouldn't assume the full year would be as much as 20 basis points.

Alex Smith: And are you able to offer any guidance or visibility on the expected margin outturn for '08. I appreciate you have the 15% target by 2011 but there are clearly a number of variables in the mix for '08 and I would imagine there is quite a big range of market estimates out there. I was just wondering if you could offer a visibility on that?

Todd Stitzer: Well, 15% Alex is your number not ours. We said mid-teens. We will give the market a greater visibility in February when we make our preliminary results announcement.

Jon Cox, Kepler Equities: I have a couple of questions related to the drinks disposal. I see in the statement you filed there with the SEC that the new entity would take on I think about \$3.7 billion in debt and a big proportion of that will be owed to Cadbury plc. I'm just wondering on the mechanism, will that be from long term debt or will the debt be transferred automatically and repaid pretty soon after the partial disposal? And the second question on that, I'm now seeing figures that potentially the drinks business is worth \$17 billion, that's up from somewhere around \$14 billion earlier in the year and even below that on some assumptions. I'm just wondering if you are getting a feel that actually things are maybe looking a bit better with regards to the pricing of the drinks business just on the back of improved sentiment in the markets? And then my last question is back to the underlying business, I wonder if you could just give us an outlook on what you feel will happen with the commodities

next year with regard obviously to cocoa, milk and dairy and whether you see as some other companies do potentially a stabilisation at higher levels?

Ken Hanna: I'll take them in turn. First of all the debt of \$3.7 billion or £1.8 billion is just the allocated debt to beverages from today's current structure. We've made no announcement of the long term capital structure of the beverage business. The only announcement we've made is that the target Confectionery debt level will be between 1.75 and two times EBITDA but we announced that back in June of '07. So that's just an allocated amount and we've not yet decided on the capital structure. As regards press speculation of \$17 billion, all I'd say is even at the height of the private equity speculation before any of us had seen the credit crisis, I never saw a number of \$17 billion quoted anywhere. We don't normally refer to press speculation but I don't know where that person got \$17 billion from. That's all I'd say on that. As regards commodity cost pressures, the biggest issue we are facing is dairy, in line with all of the chocolate manufacturers and you've seen people like Danone and their yogurt business, Nestle and their powder milk business, and all of the chocolate manufacturers take pricing and recognise this is a fairly long term trend. Clearly there are spikes driven by Australian droughts and British floods, but there is a long term trend that milk prices are going to be considerably higher and that is our major factor. Obviously we are assuming oil stays up. So these are the two main factors that are affecting our commodity costs and we are saying on the Confectionery side it's between 5% and 6% cost increases that we are budgeting for next year and that guidance that we gave back in October still stands. We're planning for relatively sustained high levels in these two commodities.

Todd Stitzer: The macro factor of 2 billion plus people becoming more Western in their consumption habits is going to have a longer term effect on the kind of raw

materials that go into products that largely Western people consumed historically. So I think we are convinced that there's a drifting up of the long term trend in that regard.

Jon Cox: You mentioned about the UK market double digit growth in chocolate in the last couple of months. I wonder if you could elaborate a little bit on the trends going on there. Is it still the premium and gift giving type chocolate which is leading that growth or is there anything else potentially I'm missing there?

Todd Stitzer: It's the entire market Jon. If you are a keen observer of consumer products companies you will know that each of the major Confectionery companies including Cadbury Schweppes has been very active in the market place with innovation, investment and marketing and television advertising. That's translating into competition in the market place which is translating into growth for the market. I think that's coming on the back of what was a strange 2006 with Cadbury Schweppes participating in perhaps a less aggressive way because of the recall and because of an incredibly hot summer. So you are seeing a bounce back on the one hand and you are seeing renewed competitive interest on the other.

Jon Cox: I saw you decline comment earlier but I was wondering on the status of talks or non-talks with regards to Hershey?

Todd Stitzer: That's a subject on which we are not going to comment.

John Parker, Deutsche Bank: Ken commented earlier that in Confectionery you felt you needed a 5% price increase to recover the higher costs. That's seemed a rather high figure to me because if you are talking about a 5% or 6% increase in costs next

year, and I guess the raw material costs are about 20% of your turnover, so you wouldn't need anything like a 5% increase in your pricing to recover those higher input costs. Obviously I guess you also need to recover the higher input costs that you would have seen through the back end of 2007 but I think you've quantified those as about £25 million mainly on dairy which again would be a relatively modest figure in percentage terms. So strikes me as a 5% price increase needed would bring a substantial increase in your margin if you were to get that. I don't know whether you could comment whether I'm missing anything there?

Ken Hanna: Well John I think, I had the same question back in October and broadly our overall cost base for materials and packaging is £1.5 billion in Confectionery excluding labour and a 5 to 6% increase on that is £75 to £90 million. And to recover that we need circa 5% price increase on chocolate.

John Parker: You indicated that pricing in Q4 would be less than the 5% you had indicated in Q3 and that you are saying is just because the weighting of gum versus chocolate which has essentially shifted in the fourth quarter.

Ken Hanna: It's just naturally different. There is a lot of chocolate sold in the fourth quarter and a lot less sold in the third quarter because it's the summer season. So it's Halloween, it's holidays, it's Christmas and some of the chocolate pricing we have not been able to push through in the fourth quarter because we had already negotiated deals before dairy shot up in price. So it's the lag effect if you like. It will still be positive, we will still have positive price/mix in the fourth quarter. All I'm saying is it won't be as strong as it was in the third quarter.

John Parker: You've highlighted the continued extremely strong share gains in the US and I think also Mexico in gum which looks pretty encouraging. Could you update us at all on the UK gum share and maybe France as well a couple of other markets which have been a focus of interest.

Todd Stitzer: Our UK gum share is around 10%. Its revenue is actually 50% higher than we expected and we will end the year around where we expected for share. In France we are up 50 basis points in share there with around a 48% share. In Spain we are up ten basis points in gum. In Brazil we are also up in gum, so all in all the gum business is doing well in most places. In Russia our gum business is up 450 basis points in terms of share.

James Edwardes Jones, Execution: Could you actually quantify what you are expecting Q4 Confectionery revenue growth to be? And are you able to give an early indication of the impact of the chocolate price rises where they have gone through on volumes?

Ken Hanna: James, this is a pre-close trading update, we haven't finished quarter four. There's no numbers, it's just inappropriate to give them now for quarter four.

James Edwardes Jones: But you had just confirmed pricing is lower than Q3 and volume is lower than Q3 as well which was 10%.

Ken Hanna: The overall revenue growth will be slightly lower than Q3 because Q3 was boosted as Todd said by cycling relatively weak comparisons because we had a hot summer in '06 and we had the recall in '06, but it will still be positive....nicely positive.

James Edwards Jones: And the second question was could you give an indication on the impact of the chocolate price increases on volumes?

Todd Stitzer: It's early days on that.

Ken Hanna: I would agree it's too early.

Todd Stitzer: Most of the price rises went into effect October, November, December and it's the time of the year when people eat chocolate so I think it will be a while before we have a read on the relative effect of the price increases.

Charlie Mills, Credit Suisse: A couple points of clarification – one is business improvement costs: can you confirm there will be 50 basis points charged against the underlying profits from operations? And also secondly, the interest charge. You say the second half is going to be higher than first half: is that in constant currency, current currency or maybe it's in both?

Ken Hanna: Ok Charlie, business improvement costs: 50 basis points is a fixed number and that we'll show that separately and highlight it on the face of the press release and P&L account in February. On interest, marginally higher at constant currency and reported currency. Remember we do have a pension credit to offset that but the first half was £66 million at actual currency and £71 million at constant currency. And these numbers include £6 million of beverages finance leases that are charged to the interest line. So it'll be up slightly.

Charlie Mills: And that is pre the pension financing credit?

Ken Hanna: Post. The pension financing credit is the same number first half and second half.

Veronique Adam, Amber Capital: I just would like to clarify the outlook regarding your American beverage business. You are saying that in \$ terms its profits would be slightly up. And is it including the losses on Accelerade?

Todd Stitzer: Yes.

Michael Steib, Morgan Stanley: Just one question on the restructuring charges. In today's statement you've moved upwards the amount of restructuring charges you are planning to take in Confectionery slightly from the October statement, I think £10 million higher in Confectionery and £5 million higher in Beverages. My question is, is that just phasing, is that just pulling forward from future years or is that an increase in the total amount of restructuring related to the Vision into Action Programme?

Ken Hanna: Michael I can assure you that it's just phasing and accounting technicalities of what we are required to charge in 2007.

James Amoroso, Helvea: I've got two questions, one on the Drinks business, the other Confectionery. Drinks is looking at the Accelerade situation – I don't know whether you would agree with the statement that Accelerade is the most different push on the beverage side. You've done a good job on fairly adjacent categories but this is the most different and clearly it's one that hasn't worked out. Do you see a link between those two facts and what have you learnt from it and more specifically,

having listened to your comments about Accelerade, they sounded a bit defensive and really whether you feel confident of turning the learnings to date into an advantage. So basically I guess I'm asking what's the future there? On the Confectionery side, there's obviously big restructuring going on in the UK. At the same time I'm also aware from your June investor conference that there's quite a big restructuring in your supply chain and production and there are obviously certain quantities of outsourcing. You know where this is going. When I look at the changes happening in the UK, it's suggests to me more of shift of production than the volume mentioned in June. Can you confirm, elaborate or whatever on that point.

Todd Stitzer: Well taking the Accelerade point first James, we have a strong belief and continue to have a strong belief in the product proposition around Accelerade. We think we have some lessons learned about how we should have approached that and we will have a much different and more muted and artful approach to Accelerade going forward. It will just be a different approach. As it relates to the Confectionery restructuring and Ken can help me on this, at the time we made our June announcement we, because of requirements around consultation, were not able to be as clear about some of the steps that we were clear about in October, around UK reconfiguration and transfer of manufacturing to Poland. We certainly will have our own facilities in Poland. We may seek to utilise outsourced manufacturing for certain of the input ingredient into those factories in Poland.

Ken Hanna: I would just add that our announcement of an outsourcing agreement in June is the same, our proposals are exactly the same, it's the same amount of product being outsourced and there has been absolutely no change in that at all. We announced our relationship with Barry Callebaut and that is continuing as we announced.

Martin Deboo, Investec: First of all congratulations on an excellent performance. Just thinking about the gorilla ad which I think is of significance in this debate and the implications of it for your marketing strategy in the UK. You look to have increased marketing investment in the fourth quarter so far, do you expect to see that trend continue? In other words, are you prepared to invest behind success? And secondly, what are the longer term implications of this? I mean it's a great piece of advertising but is it a great campaign? Are you confident that you can keep Glass and a Half Full working for you? And does a stronger platform in the UK lead to any change in marketing strategy around the way you are positioning the Dairy Milk brand, new product development, etc. So it's a situation assessment in the UK really, and are you back on the front foot?

Todd Stitzer: Certainly Glass and a Half Productions has put together follow on campaigns. They will be different than the gorilla. We think they will be equally as creative and motivating and interesting. We certainly have made a commitment to invest behind our UK chocolate brands. We're actually focused on going back to basics giving our consumers the very best Cadbury Dairy Milk in the format that they know and love with the right reminders and encouragement in the market place and I think you will see us continue to invest. We are not going to call the level of investment because that's a competitive bit of information but the UK is a very significant part of our business and CDM is a very significant part of that. So we are going to continue to focus on it.

Andrew Hollingworth, Redburn: Could you must clarify what the rules that exist governing existing executive compensation schemes. Do they end up vesting on

demerger and then you have to have some new ones or can the existing ones carry on in a new form?

Ken Hanna: The existing ones can carry on in a new form and we will be starting shareholder consultations in the early part of the New Year just to get shareholders' views on the new arrangements.

Andrew Hollingworth: So the idea is that divisional managers or senior managers in each division are judged on that divisional performance anyway, but anyone that's judged on the share price has to go through an equalisation process from old shares to new?

Todd Stitzer: Yes there's an obvious recalibration of those programmes that are tied to the shares because the shares are going to be different.

Andrew Hollingworth: And lastly do you think there's any necessity to put some new schemes in place post the demerger bearing in mind the different objectives of the two divisions?

Todd Stitzer: I think there will be slight tweaks to the schemes but the structure will remain largely the same.

Ends
