

WORLD TELEVISION

Cadbury

Interim Results Presentation 30th July 2008

Roger Carr:

Good morning ladies and gentlemen and thank you for attending our Interim Results Presentation.

My name is Roger Carr and I became Chairman of the company some two weeks ago. I'm particularly pleased therefore to preside over the announcement of the first results for Cadbury post demerger which I believe demonstrate the merit of focus, the power of the brand in both established and many emerging markets and the potential that still may be realised by determined management effort.

In a few minutes Todd will provide greater detail on the management actions that have delivered this outstanding performance and give you an insight into future prospects. Ken will then drill further into the financial results.

The presentation will be limited to about 45 minutes this morning leaving ample time for Q&A. But before Todd speaks I want to say a few words to you about my plans for the business as Chairman, the challenges that lay ahead and the determination of the board to build sustainable shareholder value.

In recent weeks I've spoken to many shareholders both in the UK and North America. I've listened carefully to the comments of the institutions and the criticisms of the more vocal activists. There are shades of opinion but universal support for the transformation of confectionery achieved by the acquisition and integration of Adams, the separation from beverages and the first wave of cost performance improvement measures implemented by management.

However, there are some concerns that the pace of change will require acceleration in the face of economic headwinds and that

there remains much work to do to unlock the full potential of this business.

Now I support this view. In a more challenging environment things cannot and will not stay the same.

As evidenced from my own corporate background I believe in focus, the relentless pursuit of cost reduction and the drive for profitable growth. The business model we have created has an enviable global footprint, powerful and respected brands, talented and passionate management, a history of resilience in economic downturns and a future with good growth prospects.

It is a business however that has yet to deliver its full potential and we have now chartered a course to achieve this objective through our Vision Into Action Programme.

The business is not without challenge. Today all companies are facing the most uncertain global economic outlook we have seen for many years. Consumer spending is under pressure; energy costs are at unprecedented levels and show little signs of abating. Inflation is evident at home and abroad and is accelerating in emerging markets.

For Cadbury there are the additional issues of rising cocoa prices and a shift in market dynamics through competitor concentration.

Against this background of uncertainty therefore I want you all to be very clear on the things upon which you can rely and to which the management team are fully committed.

First and foremost we will not soften our commitment to margin improvement. We will not be blown off course by increasing

costs. We will not be distracted by vocal sceptics. We will not contemplate acquisitions that do not create value and we will not reduce our commitment to effective marketing or product development.

We are currently reviewing the board composition to ensure that membership is appropriate to the new business model, in particular to balance FMCG experience with greater financial and performance management emphasis.

As a member of the board I have witnessed at first hand the operational strength of the team led by Todd in the flawless integration of Adams and their courage in tackling the major restructuring agenda of the traditional confectionery business.

They have my full support as we embark on the next phase of the journey to deliver the targets to which they have committed. And to this end I've agreed with Todd to undertake the following. We will revisit our cost structure to underpin our margin commitment and ensure we are competitive. We will review our management organisation to ensure we have the necessary skills, the right structure and the correct bench strength to deliver performance today and provide strong succession for the future.

We will reappraise our portfolio in order to sharpen the focus and liberate value from peripheral assets - really the discipline of good corporate housekeeping. And this is not business as usual. We will make these changes rapidly in order to maintain the momentum that the Executive Team have built and strengthen our abilities to deliver our promises not only in '08 but in '09 and beyond. We will of course update you on these measures in the last quarter.

In summary our ambition is to capitalise on the inherent strength of this business, sharpen our competitive edge and meet and ultimately beat the performance of peer group competitors. We believe this will build long term sustainable shareholder value and enable us to reward shareholders with a progressive dividend policy growing broadly in line with earnings and achieving a payout ratio of 40 to 50% in the medium term.

Finally, I want to leave you in no doubt that there is no complacency from the strong results we have delivered in the recent past, nor lack of resolve to meet and exceed where possible the promises that have been made in a more challenging future.

As Chairman I have inherited a company with a great history of business and social values. I intend to ensure that these values are maintained and that shareholder value is placed firmly at the top of our agenda. I'll now hand over to Todd.

Todd Stitzer:

Well thank you Chairman and good morning ladies and gentlemen, it's great to see you. We've got a little smaller room here so it's cosier in the summertime. A year ago we laid out our Vision Into Action strategy for the standalone Cadbury Confectionary business. We told you that confectionery is a robust market, that Cadbury has an outstanding business platform and that Cadbury has significant under exploited potential. Finally we committed that we would deliver on that potential using our Vision Into Action plan.

Today we'll show you that we're beginning to delivery against our plan in terms of the performance scorecard we set ourselves, both from a financial and a commercial perspective. We'll also show you why we believe the confectionery category

is resilient. And we will recommit to delivering mid teens margins by 2011.

So let's take a look at the six elements of the scorecard. We've got strong revenue momentum. Like for like revenue growth is 7% in the half ahead of the goal range we gave you. We've grown our share of the global confectionery market for the fourth year in a row. Our 2007 share, as recently published by Euromonitor, moved ahead by 30 basis points to 10.4%.

Importantly we increased our operating margins by 190 basis points and we delivered that improvement through a combination of restructuring, cost cutting and improved mix.

Price realisation has covered the increase in our input costs. And just to be clear price realisation is more than just increasing headline prices. Price realisation includes reformatting, repackaging and adjusting promotional mix and customer investment. As you heard from our Chairman our interim dividend is ahead by 6%.

As it relates to the fifth element of our scorecard - maintaining an efficient balance sheet - we successfully refinanced £350 million of maturing bonds earlier this month by issuing a ten year sterling bond.

In addition as you'll have seen in our press release we intend to review the structure of our Australian beverage business. We'll update you further when the study had been completed.

Finally as it relates to return on invested capital the last element on our scorecard we're confident that strong growth in revenues and margins for the year as a whole coupled with disciplined

capital allocation will drive strong growth in both ROIC and earnings per share for the year as a whole.

I'd like to now talk about what's actually driving our performance, and let me start with the overall confectionery market as a whole. As I said right at the beginning confectionery is a robust category. And category growth has remained strong throughout the half. This slide shows you the category growth rates in our top developed and emerging markets for 2007 and year to date. These markets account for about two thirds of our revenues. As you can see growth has remained robust in both developed and emerging markets.

Going forward we expect that confectionery category growth will remain relatively resilient. When you think about it at Cadbury we sell small moments of pleasure, we sell affordable treats. If you look through history you'll see that confectionery growth has been relatively unaffected by changes in GDP.

This chart shows confectionery value growth in the UK set against changes in GDP over the past 40 years. Confectionery has grown through the recessions of the '70s, the '80s and the '90s as you can see highlighted around the yellow boxes. The mix between volume and price does vary a bit from year to year but value has grown pretty consistently and we're about growing value.

Own label has remained a small percentage of the UK market at just about 7% of total sales. And that compares favourably with around 38% of total sales for the overall UK packaged food market as a whole.

Now this patterned is mirrored in developed markets as you can see in this chart. But own label penetration is much lower in

emerging markets, as you would expect given the relatively unconsolidated nature of the trade in those emerging markets.

Now there are no guarantees that the UK model will play out in every market in exactly the same manner. Data sets in emerging markets are a little bit less complete. But if you take a look at growth in the BRIC countries through the emerging markets crisis of the late 1990s it shows that confectionery growth was similarly resilient. In fact it was broadly in line with recent growth rates of about 9% a year.

In terms of our own business we've seen no slowdown in our growth rate in the first half, in fact overall growth is continuing slightly ahead of our pretty substantial four year average.

Growth in our emerging markets is also continuing in line with our four year double digit average as you can see here. This growth is broadly based across all our regions and emerging markets with the exception of Russia and Turkey where growth has been impacted by the significant planned route to market changes that we've described in prior sessions.

All of our categories grew strongly in the first half. Chocolate was up 6, candy was up 7 and gum was up 10. Overall our revenue growth of 7% continues to outpace the long term confectionery market average of 5%.

As we continue to leverage the strength and differentiation of our business platform we expect to continue to outperform the category.

Our confectionery platform or global market share has strengthened every year since 2002. Our 30 basis point share gain in global share in 2007 to 10.4% increases our overall

share gain since 2003 to 120 basis points. And you can compare the relative success of market share growth of the other majors in the market from this chart.

Gum has been an outstanding performer; our share of global gum has increased by 450 basis points since we bought Adams. It now stands at 28.9. And that's not Adams that's organic growth on Adams.

After the merger of Mars Wrigley, an oft' spoken about topic, our competitive position will remain strong. And that's particularly true outside the US where we'll remain number one with 13 number one positions. We'll also be number one in emerging markets with seven (number one and two positions) out of the top 12 positions in the biggest emerging markets.

As you'll see in a few moments the strength of our commercial execution combined with a relentless focus on cost and efficiency lies at the heart of our Vision Into Action strategic plan to unlock the significant potential of our business.

I'd like to describe how our focus on commercial execution has helped us deliver strong revenue momentum in the first half and Ken will tell you about the efficiency focus.

This chart summarises our growth priorities. Those priorities are centred around the theme of fewer, faster, bigger, better. Simply stated we're focussing our commercial efforts on larger, faster growing, high margin brands, markets and customers. To the exclusion of our less advantaged brands, markets and customers.

Our 13 focus brands such as Cadbury Dairy Milk, Trident and Halls which account for 50% of our revenues grew by 9% in the

half. And remember these brands have gross margins significantly higher than the group average. It's pretty simple you focus on the big brands with higher margins and you drive profitability.

We saw a particularly strong performance from our focussed candy brands, Halls, Éclairs and the Natural Confectionary Company. Our 12 focus markets which account for over 60% of our revenues also grew by 9%. And our 7 focus international customers grew by 7%.

Now there are a lot of examples around the world where the benefits of our new approach globally coordinated category strategies focussed on fewer bigger initiatives is driving growth. And rather than drive you mad with a million examples I thought I'd focus on just three, one each for chocolate, candy and gum starting with chocolate.

Cadbury Dairy Milk is our flagship chocolate brand. At retail CDM is worth about \$2 billion and is the third largest chocolate brand in the world. In the first half CDM grew by 9%, building on 5% growth in 2007. The 9% reflects excellent growth from our emerging market businesses particularly India, South Africa and our developed market business in Australia with good growth in the UK.

In the last 18 months we've been using our new category organisation to join up local business units to improve the basics across the whole range of consumer experience. I'm talking about packaging and product, marketing and in store execution. We're saving costs by trying to do things the same and having lead markets to tell the follower markets to do it basically the same.

In the UK we've had great success with our new marketing approach. Last month we won the best global advertising execution at the Cannes Advertising Awards for our highly effective gorilla ad. As you'll hear in a moment that's being rolled out across the world. But the gorilla ad has been backed up by excellent in store execution across the range of our brands.

At the product level we've upgraded our packaging and recently introduced a smaller 140 gram format for the important convenience trade who didn't appreciate the 200 gram block that we'd been trying to sell through that channel.

In the autumn we'll be launching a broadened range of Cadbury Dairy Milk with more premium offerings for consumers who are looking for something a little bit different and more premium.

Looking further a field the gorilla campaign has tested well in a number of other key chocolate markets and has actually been rolled out in New Zealand - with Australia and South Africa to follow. We've had a remarkable response in New Zealand to linking up Phil Collins and Warner Records with the gorilla ad to drive record share in that market. So again using something in one market, tweaking it, rolling it out in another market, tremendous impact.

In candy our chocolate centred toffee which is called Cadbury Éclairs is a key brand in a number of emerging markets. It allows people to get a sense of what Cadbury tastes like at an affordable price rather than buy a moulded block of chocolate. It's ideally suited to warmer climates and it's an affordable chocolate treat across a wide range of pricing points and emerging markets.

Over the last two years we've been more effective in sharing skills and experience across markets on Éclairs in production. Massing production into a few key places, packaging and marketing, keep it the same, allowing us to keep costs down on this product while offering consumers great quality at affordable prices.

China and South Africa are great examples. In China where we launched Éclairs in a more affordable and convenient stick pack revenues of Éclairs have more than doubled. In South Africa where we've launched Éclairs in more affordable retailer friendly formats Éclairs are ahead by nearly 30% this year.

In gum we've been particularly successful in rolling out winning formats in multiple markets. In 2005 we launched centre filled gum in Canada, the USA, France and Switzerland. Three years later it sold in 25 markets across the Americas, Europe and Asia and it's producing annualised revenues with great margins of over 250 million pounds.

In mid 2006 we launched longer lasting gum under the Stride brand in the US. We took the Stride format and launched it across 12 other markets in the Americas and Europe and our annualised revenues from that one product alone are running at around £180 million. So that's almost £500 million of revenues in two and a half years on two products that have basically the same format and technology platform and are manufactured in a limited number of plants.

Today we're selling as much as we can produce of those two products. We could sell more if our capacity was greater. And we are launching those products in further markets later in this year and in 2009.

Please make sure you get samples of our Trident Sweet Kicks Chocolate Mint Centred Filled Gum recently launched in the UK as a part of our fourth wave of innovation. Now chocolate mint gum may sound a bit strange to those who love Cadbury Dairy Milk but it actually is a no fat, no calorie chocolate snack that is really getting people excited and I really urge you to take a taste.

I've shown you why we've outperformed our revenue goal and how that's driven outstanding commercial results and this slide summaries those outstanding commercial results, a very simple snapshot of an outstanding commercial performance.

Ken will now give you the financial and operational detail behind our delivery and why we made good early progress on our mid teens margin goal in the first half. Over to you Ken.

Ken Hanna:

Thanks Todd and good morning everyone. This morning I'd like to talk to you about how we're delivering on our financial scorecard, the momentum in our growth, the progress we've made in our cost reduction programmes and lastly our focus on capital efficiency.

You'll recognise the scorecard that we published in June last year, it sets out our goals to 2011. In particular this morning I'll be focussing on our revenue delivery and margin progression. To start let's take a quick run through our income statement. It reflects the American beverage demerger of this year and is before restructuring and transaction costs. And the 2007 numbers are in line with the numbers we gave you in our June trading update.

We've generated just over 7% like for like sales growth and a 35% underlying profit growth. Margins are up 190 basis points on a constant currency basis. Clearly we're benefiting from our

operational leverage, our mix, our cost saving initiatives and we've delivered these improvements with an increase in marketing of 70 basis points.

Our earnings are up 35% again at constant currency and this translates into an EPS pro forma growth of 34%. Overall we are reporting a high quality set of results.

The revenue growth we've produced over the last six months continues the momentum and delivery that we've delivered over the last four years. Our performance continues to outpace the overall confectionery market and that gives us the global share gains that Todd has talked about.

We have a real geographic spread and powerful defensive qualities. The Americas region had a great first half and that comes on top of the 12% growth in the first half of last year. In particular, candy and Halls had a very strong season and gum continues to show excellent growth in both the US and in Latin America.

The US did benefit in the first half from price increases we put through in the first half of last year - towards the end of the first half of last year. And clearly we will not have the benefit of this price cycling in the second half of this year.

Our Asia Pacific business delivered good growth and a solid recovery from a weaker second half of 2007. Our Asia Pacific emerging markets were particularly strong. For example the Indian business had its best ever half year delivering growth of 25%. And after only 12 months Bubbalo is now 9% of the entire Indian bubble gum market.

BIMA region delivered a very solid first half, South Africa up 16% and Nigeria up 29%. These performances really underpin our performance in emerging markets.

In Britain and Ireland successful launches of new products such as Crème Egg Twisted have helped improve our market share trend.

In Europe the picture has been more mixed. We've had good performances in Northern Europe, but tougher trading conditions in France and Spain. As you heard from Todd route to market distributor changes in Turkey and Russia have impacted our growth in these two markets. We estimate the impact of those changes; these route to market changes at roughly 2% revenue impact for the region in the first half. But we do expect stronger business and financial performance from both these markets in the second half.

We continue to generate really good growth from our total emerging markets. Over half our growth is coming from these emerging markets and they now account for 33% of total group revenues. As expected over the last six months revenue growth has shifted towards mix and price. We are achieving good price realisation which clearly demonstrates the strength of our brands. We're reformatting and repackaging some of our chocolate products and adjusting promotional mix and customer investment. That is allowing us to achieve input cost recovery across the entire business.

Our strategy does include portfolio and SKU rationalisation. We've withdrawn from industrial chocolate contracts in New Zealand and we've made significant portfolio rationalisation progress in both Egypt and Canada.

If you take them together these programmes had around a 1% impact on volumes in the first half. But our focussed brands are up 4% in volume and 5% in price mix.

Just over a year ago we announced our objective of mid teens margins. And today's results represent a great step towards achieving that objective. I'll take you through the levers and the progress we're making and then I'll talk about how we're overcoming the commodity cost challenges.

But first let's take a quick look at the profit bridge, the 7.2% margin on the left is the 2007 margin after business improvement costs around half a percent of revenue. Historically margins are always lower in the first half of the year. That reflects seasonal phasing, operational leverage and this year we have front ended marketing investment particularly in our focussed brands.

As I'm sure you've read already operationally the Americas region was the star performer. They produced a £30 million, 230 basis points increase in profits. And they've got there through operational leverage from strong top line performance combined with excellent SG&A savings - more of that later.

Our colleagues in BIMA also delivered a strong first half. They focussed on cost reductions, produced an improving trend in Nigeria and they got the benefit of cycling some one offs such as last years Easter recall.

Asia Pacific's margin development has been driven by its emerging markets. The revenue growth of their emerging markets of around 20% has had a significant impact on operational leverage.

Europe has had a setback in its margin progression. This is primarily due to the route to market changes in Turkey and Russia. We expect the positive benefits of these changes to come through in the second half.

And for the first time in a number of years foreign exchange has been a benefit. We had a 20 basis points uplift on margin. That compares to the first half of 2007 where the impact of FX was 40 basis points negative.

Now let's take a look at our margin performance since we launched VIA in June of 2007. I've shown here margins at both constant and actual currency, but let's concentrate on the constant currency numbers. In the second half of 2007 we reported a good improvement in margins of 80 basis points. Taken together with the 190 basis points we presented today that gives progress over the last 12 months of 130 basis points.

Let's look at the major elements behind this performance. We're making real progress in reducing our central costs. We've reduced them by £11 million in the half. And we've got further progress to make in the second half. For example we only moved into our new Uxbridge Head Office just a few weeks ago. And we expect the full year central costs to be within our target of 2% of revenue and to contribute 50 basis points of margin improvement this year.

We're also making progress on SGA reduction in the Americas. We've used external benchmarks to cross check the size of the teams. We've simplified the organisation structure into three business units; Canada and the USA are now combined for example. We've integrated our South American businesses into a single unit and our Northern Latin America region has been re-based.

These changes have led to a leaner support structure, closer integration between businesses and double hatting of roles. This has reduced overlap and made decision making a lot faster.

So far we've reduced G&A headcount in the region by 15% and by over 30% in the USA and Canada. And as I mentioned earlier SG&A costs as a percentage of revenue have dropped by 230 basis points.

Our supply chain reconfiguration in Britain and Ireland is also making good progress. We announced the closure of our Somerdale plant and we'll be transferring production to Bournville and to Poland by 2010. We've also reduced headcount by 30% at our Irish factory and that is benefiting 2008 performance.

Once our UK transformation is complete Bournville will focus on high volume moulded products such as Crème Eggs and the highly automated assortments while the two plants in Poland will make our lower volume moulded products, count lines and the more labour intensive assortments ranges.

Moving onto the next lever - portfolio rationalisation- Egypt is a great example. Over the last few years we've seen our margins fall in Egypt. This is because we've been unable to raise our prices due to coinage limits. What we mean is that in many cases we were faced with the choice of having to effectively double prices. Instead we've been reducing the size of the products until they risked becoming unappealing to customers.

We've reviewed our entire business model and have doubled the price of some products at the same time increasing their

size. The goal has been to protect our position in the mass market. We've recently reduced the workforce by over 200 people to adjust for the inevitable reduction in volumes. That integrated approach of reformatting, pricing, SKU rationalisation and overhead reduction will generate a significant impact in our Egypt margins in the second half of the year.

Now commodity costs are proving a stronger challenge than we had foreseen when we laid out our VIA plans in June of last year. The market price of cocoa in the first half was up 37%, oil is up around 50% and prices have continued to rise. The higher oil price will start impacting the second half of this year, mainly in distribution, energy and some packaging costs.

As far as cocoa is concerned as we've previously told you we will not see much of an impact on our costs in 2009. And it's much too early to predict next years impact until we see this years harvest. We are however confirming our guidance for 2008 of a 5 to 6% increase in input costs and they'll be weighted towards the second half. As we illustrated in our first half results we are managing these input cost pressures by price realisation.

Now what about our three under performing markets - another important lever in our margin challenge - China, Russia and Nigeria? They have all shown revenue growth in the period over 25% in total. The pace of growth in Russia has been impacted by new distribution agreements we put in place and that agreement, as was explained before, with largest tobacco distributor provides a new route to market for our product throughout the convenience channel outside of St Petersburg and Moscow which represents around half our total sales in the country.

Profitability across the three markets is improving and in aggregate we should be close to combined breakeven position by the end of this year. That's a significant improvement from the £26 million loss we reported for the full year 2006. We're clearly on track but we're determined these markets will demonstrate much more significant improvement.

Let's move on to what we're doing on capital efficiency and the impact on our balance sheet and cash flow. Our VIA restructuring charge this year will be weighted towards the second half while the demerger costs and these are costs associated with the confectionery separation such as IT, accounting and shared services will be predominantly recognised in the first half.

Total P&L costs related to the merger are now expected to be around £145 million. Of that 145 million around 45 was recognised in 2007. That's less than we've previously indicated and the difference is predominately a reduction in tax costs and there's a slide in the supplementary schedules that will help explain that clearer.

In aiming to keep an efficient balance sheet we're actively managing our debt profile. We're maintaining an appropriate balance of term debt and fixed verses floating rates. We're doing that with a view to maintaining our BBB flat rating in the short term and rising to a BBB+ over time.

As you heard from Todd we were pleased to announce the issue of a £350 million ten year bond recently. As some additional existing bonds mature some at the end of this year and some next year we expect our average interest rate to increase slightly this year and into 2009. The 2008 interest rate will be around 6%.

We have over a billion pounds of undrawn bank facilities through to 2010. So our liquidity is fine, but we will seek to raise additional long term bonds at the appropriate time.

Finally we are managing our leverage at a level that's appropriate for the business and for the economic environment. Our debt levels are usually higher at the half year but this year we expect net debt at the year end to be a little higher than the 1.7 debt we have today. That reflects the phasing of our capital expenditure and the impact of currency translation.

So overall we believe we've produced a really encouraging and high quality set of results. Now I'd like to hand you back to Todd who will wrap up the formal part of the presentation and give you our view on the outlook for the second half, thank you.

Todd Stitzer:

Well thanks Ken. A huge amount of hard work and focus by Ken and his finance team both on the demerger and obviously on our VIA cost reduction programme, it should not go unnoticed and obviously the results show it.

I think you've seen this morning that we've had a very strong first half, both from a revenue growth and margin perspective. Revenues are ahead of our goal range, we've produced strong growth across all three of our categories, chocolate, candy and gum, and we've continued to generate double digit growth in emerging markets. We've also made significant progress on margins at 190 basis points for the half. That progress on margins is the result of tight focus on control across every aspect of our business.

We've achieved good price realisation in most of our markets around the world which has offset increased commodity costs.

In some markets, including the UK, price realisation has also allowed us to eliminate less profitable SKUs and reduce unprofitable promotions making us better business people. This has had some impact on volume but not terribly much and all of it's been planned.

We're also benefiting from positive mix, that is to say higher growth as you heard me say at the beginning from our more profitable categories and brands such as gum and Halls and others. On a really positive note we're also beginning to see the benefits of our Vision into Action cost reduction programme which is measured and specific. We set out last October a very detailed plan of cost reduction activities across our business. That plan continues to be focused on and delivered.

Turning to our outlook for the full year confectionery as you heard me describe at the outset is a traditionally highly defensive category. We've shown you that the sector has performed well through previous economic downturns in both developed and emerging markets. Today there are, as you heard the Chairman say, significant macro economic influences at work that make future predictions a bit more difficult than usual.

So far overall demand in our markets has remained strong with the exception of southern Europe and France. As we said previously we will be cycling demanding 2007 second half revenue and margin comparatives. But if you consider the strength of our revenue momentum and the commercial programmes we've got planned for the second half you'll see why we are confident of delivering revenue growth around the top end of our goal range for the full year. And from a margin perspective given the detailed cost reduction plans that we have

we expect margins for the year to be in line with current market consensus.

This balance of revenue and margin performance will deliver strong growth and earnings per share as well as improvements on our return and invested capital. All in line with the performance scorecard that we set out a year ago. That will allow us to deliver growth and dividends in line with the commitments again that we made in the scorecard and you heard the Chairman describe earlier.

Looking into 2009 as we said in June if commodity costs stay at current levels or increase even further then we will implement further price realisation strategies to cover the increased costs. Given the progress we've made this year on price realisation we're confident that we can achieve further price realisation. In addition I want to confirm as the Chairman said at the outset that we will be revisiting our cost structure to underpin our commitments to mid teens margin delivery by 2011. This is a perfectly normal management response to change circumstances over the life of a multi year plan. It's not business as usual in the greater world in which we exist and we have to take actions to respond to that change.

We don't expect that there'll be any incremental restructuring or CAPEX costs. We will review our organisation to ensure we have the necessary skills, the right structure and the correct bench strength with an eye to fitness for purpose and succession. We will reappraise our portfolio of assets and businesses to sharpen our focus and liberate value. And we will do this in a way that maintains the wonderful momentum we've created over the last four years on marketing investment and product development.

In closing we told you in June last year that as a focus confectionery company Cadbury PLC was operating in a robust category with a strong business model and a great team and a clear action plan to deliver against our significantly under exploited potential. It's early days but I think it's very clear we've made a strong start. There's no doubt we're facing difficult times but we're convinced that the resilience of the confectionery category, the strength of our business model and our continued focus on delivery of our performance scorecard and our Vision into Action plan will allow us to keep delivering on the plan in 2008 through to 2011.

That's the business presentation. I think you saw in the press release today that we're announcing that Sally Jones our Director of Investor Relations for the last ten years has decided to step down and pursue some other challenges. I'd like to thank Sally on behalf of the board and our executive team for an incredible contribution over these last ten years. She's seen an amazing transition of the business. Sally we'll miss your fellowship and your hard work, those frenetic preparation times. But we wish you well. Sally will leave in the third quarter after the IMS and I know that a number of you are long time admirers and colleagues of Sally so I think we should give her a big round of applause for thanks.

Applause

Todd Stitzer:

It's very unusual in these events to have a round of applause. The management doesn't get any applause and - so you know. But we're also pleased to announce that John Dawson will succeed Sally as Director of Investor Relations. John has extensive IR experience; most recently was VP of investor relations and corporate communications at ICI. John stand up and let people see the new Sally Jones. Welcome to the team.

We're glad you're here. We apologise to your wife for interrupting your holiday but thanks for coming.

So that's it for our speechifying. We're going to move to the question and answer podium and we'd be happy to take your questions. So thank you very much.

I think if you address your questions to Roger ...

Roger Carr:

I mean if you could just say who you are and where you're from it will help me actually and from the point of view of answering to questions no change, those that are responsible for the job will be answering questions on the job. But if there are points you want to ask me as the new chairman please do so I will give you the best answer I can.

So first question, back please.

Warren Ackerman,
Dresdner Kleinwort:

Three questions, first one for Ken. What do you consider to be the consensus margins for the year? Can you just clarify what the number is? The second one could you elaborate a bit further on France and Spain, what trends are you seeing in those two markets, the actual sales growth in those two markets and any comments on share trends. And finally on the free cash flow. I noticed it was an outflow of 109 million in the first half. Can you discuss the moving parts on that and do you still expect free cash flow to be positive for the year which I think was what you were saying previously. Thanks.

Ken Hanna:

Let me do the first and the third Warren. There is a range as you would expect on consensus but we think current consensus is around 120 to 125 basis points. That would be the sort of average consensus full year margins. Free cash flow, the numbers you will see in the press release are not on a pro forma basis. They include four months of beverages. The IR team will be able to give those of you who want the numbers more insight as to the pure confectionery numbers so we'll split out CAPEX, we'll split out depreciation. So they'll do that offline for you as an aide memoire for the analysts who are interested in that. There should - what we're saying is that there's likely to be a small cash outflow this year as a result of the CAPEX restructuring and foreign currency. Foreign currency will make quite a bit of a difference if all things - if things stay the same. So a small cash outflow this year so net debt will increase slightly. But we'll give you as much help as possible offline.

Todd Stitzer:

On France the market in France is a difficult market. I think you've all read about what's going on there. The confectionery market is flat to down. Our revenues are up a bit; our market share is actually up to around 49%. There are three players duking it out in the gum market in France. Wrigley has been the significant loser, Perfetti has been the significant gainer and we're chugging along at roughly 50% of market share. So it's tough times in France. The government seeks to sort of elbow retailers and manufacturers to lower prices so it's a difficult place to be.

Spain is a difficult economic environment as you've seen. It's a little bit better on the confectionery side. We've lost a little bit of share; in France we're still number one. Our share is about 45% it's been as high as sort of 49%. But we think that the market with extra innovation in the back half will respond appropriately. So we think we have good strong positions. We're fighting the

fight as number one in both places reasonably well. You've seen the over extension certainly in Spain of their economic model as an overall economy and that's impacting everybody. Is that responsive Warren? Yeah okay.

Martin Deboo,
Investec:

First of all congratulations on a very strong set of results. Two questions really. If we look at the 200 basis points of margin improvement ex-M&A, ex-Forex, can you give us a sense of the moving parts of that split between you know pricing and volume leverage versus what's beginning to flow from Vision into Action. And the second point specifically on Americas. I just noticed the margin improvement 230 basis points that looks to be equivalent to what you've claimed is the SG&A saving so why is there not more pricing and volume leverage flowing through Americas comp specifically.

Ken Hanna:

Okay let me take the second one first. The pricing and volume, the SG&A leverage was the US not the total of America. So it's the US business where I quoted it was the US SG&A. So let me take the first one. Major moving parts, well we'll give some guidance. The algorithm for the full year is the same and let me just repeat it. Commodity costs are covered by price realisation and margin is delivered by cost reduction. That is it for the full year. For the first half because we've got US price increases that we won't have in the second half, the price contribution, the price realisation and leverages have been a bit stronger in the first half. Overall we think the full year consensus number of margin growth will be delivered by VIA savings. That's a combination of central costs, SG&A and under performing markets recovery. So a little bit more price recovery in the first half, driven by that the 10% price increase we put in last year which we'll lose in the second half and that will be compensated for price increases flowing through from other markets.

I think the Americas is the biggest swing factor. The fact that we've got a price increase that is in the first half we won't have in the second half.

Julian Hardwick,
ABN Amro:

Can I go back to both the opening and the closing remarks in terms of the actions you're taking to the revisiting cost structure portfolio etc. Is the message that you're giving us because of the way the economic environment has altered you're going to need to do more to be able to deliver your mid teens target or are you actually hoping to get some upside to that from this additional activity? I mean how significant is this going to be when you said no restructuring, no additional CAPEX, so I'm not quite clear what sort of savings you're expecting to be able to generate if you're not putting more money into it.

And I think in the past when people have pressed you on why don't you go faster, why don't you go deeper one of the responses has been there is a limit to how much change the organisation can deal with at any one time. If you're still going to keep the top line moving forward and gaining shares etc. so does that comment still apply and are you still going to be able to manage to do all the other things you'll want to do if you're putting the organisation through greater change still?

Roger Carr:

Shall I give you some headlines and then I think Todd if you pick it up. The headline is that you know life is getting more difficult and in those circumstances we have a clear commitment on margin delivery and our response therefore must be to be more positive and aggressive in the way we address our cost base and improve the performance of the business in the light of that. So your question is, is it to underpin? Certainly and that is a set of actions that the team are committed to take. Are we hopeful

that it might do better than underpin in the medium term? Yes but we're working on underpinning and delivering what we promised as the first position.

The second point you made was basically about well how can you do all this and not have any more costs and I think the point Todd was making and both Todd and Ken can correct me if I'm wrong but there will be more cost in this, within the model we have there is an allowance for restructuring cost within our accounting base and we will use that I think as part of the restructuring. So we're not looking at loading additional restructuring cost into the model, we're going to use the headroom we've got to be more effective and efficient as a business and clearly not all cost reduction costs money to make, some of it can come from purchase supplies. There are all sorts of areas. So we've got to look across the waterfront to extract everything we can as quickly as we can to get the margins that we've committed to underpinned and hopefully long term improved.

The third point you make was on speed. Now absolutely right to say that there is a tipping point where management becomes so overloaded it's counterproductive. My assessment in talking to Todd and Ken is we're not there. We have good people who are working hard to deliver. They know that there's a challenge ahead and I think they're responding well in the knowledge that there is more to do in order to meet and liberate the full potential of the business. So yes it's not business as usual, yes people will be working a little harder than they might have thought originally but that's within the capabilities of the business and the team in my judgement at this stage. So those are the headlines. Todd?

Todd Stitzer:

Yeah I mean I don't have a lot to add other than it would be my observation that many of you were not confident that we would deliver mid teens margins by 2011. We set out a plan that we're determined to deliver and you know working with the Chairman we're absolutely clear that we need to be absolutely sure we can deliver what we said we could. And that requires us to go back to the well to look at the actions that we've taken in the context of CAPEX and restructuring, it's to choose the products that deliver a faster return and bigger payback. So it's not adding more restructuring of CAPEX, it's challenging people to find the best projects that deliver more quickly and more generously.

So we have a team that is largely intact, that's lived together for five years through the most amazing transformation that this company has ever seen. I mean we've closed or sold 25 or 35% of our plants. We've separated 25% of our people. We've sold and separated our beverages business. We integrated Adams so it's a team that has a lot of capacity and I think we know how to judge whether people are up to here or over their heads. And I'd say we're you know about there and that's a good place to be because then you don't have any time to think about how unhappy you feel. And you got a lot to do. So I don't know it's underpinning because we're determined to deliver in what we said we would do.

Roger Carr:

They're enjoying it.

Alex Smith,
Lehman Brothers:

Just a question for Ken I guess on a point of clarification on the consensus margin, the 120 to 125. Is that underlying pre FX?

Ken Hanna:

It is. At constant currency pre FX.

- Alex Smith: And the current spot rates, do you expect to see similar sort of 20 basis points?
- Ken Hanna: I mean obviously the dollar's strengthened the last few days, the Euro has moved, it's ballpark about right. I can't predict exchange rates.
- Alex Smith: Then can I just ask a question on pricing, I think you said for 2008 your price increases which you've achieved are enough to cover your current cost inflation, if cost of oil and cocoa remains where it is you might need further pricing to look at the 2009 situation. Where would that pricing come from? I mean if you see cocoa costs would you be forced to push chocolate prices up again or are you able to use gum which is more responsive to price increases to cost or to subsidise that cost inflation in cocoa for example?
- Ken Hanna: I think if cocoa prices remain high all of our competitors will have the same cost challenges that we have and chocolate would be the category that we would seek to recover that cost. Clearly we are fortunate we have a menu, we have the total confectionery model and you can do a little bit of thinking about being sophisticated between gum, candy and chocolate. But if cocoa prices drive the market the market will have to pay for it. Sitting here today it's impossible to be precise because the market hasn't been harvested for cocoa yet but if current price is maintained we will have to seek pricing for 2009.
- Polly Barclay,
Cazenove: Just a question for the Chairman. You emphasised no acquisitions that didn't create shareholder value. Does that remove or rule out any options that could dilute the organic growth of Cadbury?

Roger Carr:

No I mean I think I'm just reinforcing the point that you know we are going to be very sensible in the application of funds in that which we look to acquire. I mean there's a lot of work to be done on the organic model that we have already created and you know where there are sensible infill opportunities we will look at them. But they're all going to be judged large or small on the real value creation that they offer to the business as a whole. So it's just good, sensible discipline, rules out nothing but the focus is organic today.

Todd Stitzer:

We did three acquisitions last year; we're focused on integrating them. We frankly don't have a lot of capital headroom and we've got a big business as usual challenge so that's what we're focused on.

Xavier Croquez,
Exane BNP Paribas:

Two questions. The first one is on H1; A&P spending or growth investments have been up massively. In terms of pure media can we calibrate a little bit the share of voice gains if you can, I know it's difficult but calibrating the picture. And the second question into H2 and '09, you talk about world sugar prices but how much of the sugar you buy is actually coming from the EU where I think prices are down? So what's the share of EU sugar? And media rates, what's your comments on the outlooks for H2 and full year? Thank you.

Todd Stitzer:

I'll do share of voice, Ken you do the others. I mean I don't think there's been any significantly appreciable increase in share of voice. We're investing media in internet media and television media. So I would just say across the board we're investing in our focus brands in the right markets, but I wouldn't expect there's any appreciable increase in share of voice.

Ken Hanna: On EU sugar, clearly the context of your question is whether or not the deregulation later this year has any impact. It's too early to tell but obviously for us the strength of the Euro is probably eliminating all or most of any of the deregulation gains in sugar. Clearly we do buy a lot of EU sugar and world sugar, roughly 50/50 to answer your question but I wouldn't bake in a huge upside from any EU sugar deregulation.

Todd Stitzer: Yeah I think we previously discussed this and the deregulation regime doesn't actually have savings being realised by the users until 2010 or 11. I mean it's a phased regulation where the manufacturers actually get the benefit; the sugar manufacturers not the confectionery manufacturers get the benefit early on. So I don't think we in any case were expecting anything until 2010 or 11 anyway.

Sally: Okay we're taking a question from the web now so people should remember that for future meetings. It's a question from Marco Gulpers from ING. He says were you to exclude Nigerian one off product recall impact in the UK in 2007, how would margins have performed in BIMA in the first half?

Roger Carr: Thank you Sally.

Laughter

Todd Stitzer: Couldn't you pick an easier one?

Ken Hanna: They would have gone up. No obviously there was a slight flattering of last year's margins because of the bounce back in Nigeria but underlying margin improvement in BIMA would still have been up reflecting the good price realisation that we've had in the BIMA market. And fairly substantial, I chose Americas as the SG&A example but there has been a very significant SG&A

programme in our B&I business as well. And I did mention the 30% reduction in Irish workforce. So good underlying progress in margins in B&I.

John Parker,
Deutsche Bank:

I've got two questions. In revisiting the initiatives you are putting behind hitting your targets I just wonder whether how much portfolio change might be looked at again. You obviously make reference to the Australian beverage business but you know should we be prepared for further disposals within the confectionery side on any significant scale or do you think that won't form part of what you're considering? So that's my first question.

Second one is you've had a tremendous first half on margins yet you're saying consensus margins for the full year are right so implicitly you're talking us down on what to expect in terms of margin evolution in the second half. We knew about the gum pricing, the oil cost, the demand in comparatives that I understand, but a number of things you said this morning actually look as though it's better for margins in the second half. Your revenue momentum seems to be good so leverage will be there, you're talking about Egypt improving, you're talking about the under performing emerging markets getting to break even which I presume they weren't in the first half, and you're also talking about I think marketing phasing being more first half orientated than second half orientated. So it just seems a little bit of a disconnect between your talking down of the second half margin evolution and what you're saying about the performance of the business.

Todd Stitzer:

As it relates to the portfolio if you sort of step back for a minute over the last several years we've sold European beverages, we demerged American beverages, we're going to review

Australian beverages, Ken and his merry band of asset reviewers have sold £300 million worth of you know unhappy, unproductive businesses. There's not a lot left but we're going to look at the whole portfolio and see what's out there. There may be some under performing confectionery businesses that warrant a close look and if they don't measure up I think we'll be focused on whatever doesn't measure up.

Roger Carr:

But it's corporate housekeeping really, it's just taking the opportunity really as in addition to Australia which is the primary target.

Ken Hanna:

Let me take the second point John and you're right there are some hooks in the presentation that would lead you to believe I mean Egypt is going to have a great turnaround but it's not huge in the overall scale of things. There are two swing factors. One is commodity costs and the commodity cost phasing is likely to be about 50 basis points more severe in the second half than the first half. A combination of oil and I'll explain that and just the timing of various hedges.

Let me give you an example on oil that will help you understand it. This time last year oil was \$60/\$70 a barrel. It's now a hundred and well it's 20 today but it was 130, it's roughly doubled. So a number of our contracts for energy, for packaging, for distribution were signed a year ago for 12 months. Just one example, one factory in the US has just had its energy bill re-cut for another 12 months at \$130 a barrel and it was \$65 dollars a barrel a year ago. That one factory is going to cost us a substantial amount of money.

So there's a - I'm sure you'll find it from a large number of your other clients and customers that you follow, there's a lag effect from the oil price increase. So there's an oil price increase

affecting our second half that - some of it wasn't there on the second half. And the rest is timing on phasing for various hedges.

So there is about a 50 basis points additional cost in the second half for commodity cost pressures that we have to overcome. And then of course you know the impact of the US pricing which was in the first half and not in the second half. These are the two swing factors and we think that - plus the fact that our first half was cycling minus 30 basis points last year. Our second half is cycling plus 80 basis points last year. That is why I showed you the LTM chart and I think you should think in terms of LTM rather than the first half.

Charlie Mills,
Credit Suisse:

I wonder Ken if you could quantify in pounds million the loss of the Red Bull distribution contract in Australia.

Ken Hanna:

It is around about 90 million of revenue, pounds. The margin is not - we're not going to declare the margin at this stage until we work out the stranded overheads impact, but it's roughly worth about £90 million and it has a contributions at about 7% of our gross profit. Too early to work through the total EBITDA impact because it all depends on the stranded overheads. But it's something quite frankly we suspected was going to happen one day and we've been making plans for it. So it's not going to be devastating, we will have to work our way round it.

Michael Stein,
Morgan Stanley:

Two questions. The first is could you comment please on the strong growth you had in the United States, I think 20%. Were there anything one offs included in that figure that we should be aware of? And secondly I think out of the 7% like for like in the first half 1% was volume. Were there any significant markets

that were actually down in terms of volumes, significantly down?
That's my question. Thanks very much.

Todd Stitzer:

As it relates to the US I mean it was first cycling the impact of the price increase that we took. The price increase we took last year was effective as of April 1st. So you had Jan, Feb, March of price increments on the gum side. We had an excellent Halls first half with you know sadly for consumers a strong cough and cold season so people used Halls a lot more. And the cough cold category was up about 5 or 6% and Halls did wonderfully well.

Our candy business in the US is on fire. Nobody ever pays really attention to candy. When we bought Adams one of our synergies was putting our existing Cadbury candy business through the Adams route to market and we had about a one and a half share of the US candy market when we started. We now have a three and half or four share of the US candy market with a couple of products that are very targeted. So we had just an excellent across the board US confectionery performance in the first half driven by pricing on the one hand but good performance on all the other brands as well.

Ken Hanna:

I would say just in terms of the markets that had - there's two or three markets that took very significant pricing. I mentioned Egypt significantly down. That will be double digit decline in volume. Venezuela where we put prices up 60% to cover inflation and volumes were down 20/30%.

Todd Stitzer:

But our market share is up.

Ken Hanna:

It is. So there's a couple of exceptional market but I wouldn't - take them out of the equation and everything else is

understandable and explainable. There's no market collapse or volume collapse in any particular market.

Darren Shirley,
Shore Capital:

Just on your guidance for the full year revenue growth, you're talking around the top end of the 6 to 4% range. I mean given you're talking about price increases and volume growth was 1% in the first half. I mean what should we expect in for volumes in the second half? Are you guiding for them to fall further?

Todd Stitzer:

I think we expect just about the same. I mean we'd expect the relationship to stay relatively the same.

Roger Carr:

Listen I'd prefer not to predict price volume at this stage. We know we've got to look at prices in the light of everything that's going on in the world and I think Todd's comment is good but I think it's impossible to predict price volume.

Jeff Stent, Citi:

Just two quick ones if I may. The first is on the 6% price mix. Is Ken able to give us a feel as to how much would be price within that? And the second one is you booked a loss partly on mark to market for commodity hedges and I'm just a little bit confused on that given the comments you've been making on hedging. Thanks.

Ken Hanna:

It's impossible to split out price and mix. We sell gum, chocolate, candy in different channels in different pack sizes. It's a combination of price and mix. You're aware of some of the headline prices. We've put prices up in 12% in some markets and three or four in other markets. You can only ever, all of the companies you can follow; it's very difficult to isolate price and mix. So I think the 6% - you have to group 6% together.

The loss, 21 million I believe is the number loss is under IS39 so the loss is a below the line loss that says our hedging today is 21 million better than the market. So if you had to mark to market today there'd be - we have basically screened 21 million of cost out of our P&L. Or put another way, if the cocoa price stays where it is today and we've got no hedging for next year, if that's the case you would expect at least a 21 million hit to next year. It's this we don't have full hedge accounting under IS39 which many of you remember a presentation I gave two years ago, it's pretty laborious stuff but it's good news for this year and potentially a challenge that we'll have to recover by price realisation for next year.

Roger Carr:

Okay no more questions. Well thank you all very much indeed for coming. Thank you.

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