

Cadbury plc
Interim Management Statement
Thursday, 30th April 2009
09:00

Todd Stitzer: Good morning everyone and welcome to our call.

I am Todd Stitzer, CEO of Cadbury and I'm joined today by our CFO, Andrew Bonfield, and our Investor Relations Director, John Dawson. The purpose of today's announcement is to update you on trading and other important developments for the first three months of 2009. Since this is a new team, and it's our first IMS, Andrew and I will share the opening commentary and John, who is the font of all knowledge, will join us in answering your questions at the end.

So, let's get started. Overall, the key message from me is that after a very satisfactory start to an incredibly challenging year from an external perspective, Cadbury is on track to deliver our commitments for the year as a whole.

From a trading perspective, I'm pleased to say that we've made further progress in the first quarter with revenues ahead by 2% in constant currency, and 11% in reported currency. At the same time, we continued to deliver cost and capability benefits from our Vision into Action plan; we completed the disposal of Australia Beverages; and we strengthened our long-term financing position.

In the quarter, our business benefited from the breadth of its category and geographic presence. This has been demonstrated by the overall positive performance of the company.

Let me explain what I mean by this. Chocolate delivered strong revenue growth. At the same time, gum and medicated candies were held back by trade destocking and lower levels of market

growth. Destocking, particularly in the US and Canada, had a material effect on volumes in the quarter. The biggest impact was in the first two months of the year and mainly with one major distributor in the US who managed down trade inventories significantly around their year end in January. However, from the positive momentum we have seen since then, we feel that most of the major destocking is probably behind us, and that any further reductions will be modest.

We are confident that the US gum market has plenty of room to expand driven by innovation and marketing investment that will drive increased product penetration and consumption frequency. As you know, we have an exciting innovation agenda planned for the second half of the year.

Turning to chocolate, the Easter season was very good for Cadbury, particularly in the UK, where strong market share gains drove significant out-performance, compared to relatively flat markets. We also achieved significant market share gains in a number of our important emerging markets.

Overall, given that we are cycling tough comparatives, and the impact of destocking, we consider 2% growth a good start to the year. Were it not for destocking, revenue would have been up 4% in the quarter, and volume down 1% - a performance which underpins our revenue expectations for the year as a whole.

Let me now turn it over to Andrew who will take you through some items in greater detail.

Andrew Bonfield: Thank you Todd and good morning everybody.

As Todd emphasised, our performance in the quarter was influenced by the impact of trade destocking, local market share gains and the relative market growth for chocolate, gum and candy.

So, allow me to start by giving you a bit more detail on our category performance.

Chocolate delivered revenue growth of 7%, reflecting good performances in the UK, India and South Africa. Australia grew despite clearing trade inventories in preparation for the relaunch of the core Cadbury chocolate brand in the second quarter of the year. An important point to note is that pricing actions taken to offset higher input costs have held despite the difficult economic environment.

In gum, our market share performance in key markets, including the US, Mexico and France was robust. However, underlying demand weakness in developed markets such as France and Japan, and the significant impact of destocking in the US had a negative effect on volumes. In the US, we estimate that there was a 10% difference between ex-factory sales and total consumption in measured and unmeasured channels. As a result, overall gum revenue declined 2% in the quarter and rose by around 3% if destocking is taken out.

In candy, despite strong performances from mainstream candy brands in Australia, Middle East and Africa and Asia, a relatively weak cough/cold season for Halls in the first quarter resulted in overall candy revenue decline of 2%. Excluding Halls, candy revenues grew by 2%.

As in prior years, growth in emerging markets was more robust than in developed markets - although slower than previously. Strong growth in India, South Africa and South America more than offset the impact of weak trading conditions in South East Asia and Russia and as a result, overall revenue was up 6% for the quarter.

In developed markets, revenue was unchanged. Given the impact of trade destocking, this was a good result.

Looking at the revenue by region: In Britain and Ireland, revenue grew 10%, reflecting continued significant market share gains in the UK including the benefits of a strong Easter for Cadbury.

Seasonal products performed strongly, for example, Shell eggs and Cadbury Creme Eggs were both up by over 20%. Growth also included the sustained benefit of innovation from countline products, such as Wispa, launched in the last nine months of 2008. All in all, our UK market share in chocolate including the Easter period rose by over 200 bps.

In Europe, revenue was down 8%, with only Poland delivering good growth. Most markets – and in particular France - continued to see weaker consumer demand, and several were impacted by some retailer destocking.

In the Middle East and Africa, revenue growth of 12% was led by a strong performance in South Africa.

In Asia, revenue grew by 11%, reflecting strong performances in India and China which more than offset softer markets in South East Asia.

In Pacific, revenue was 3% ahead. As we noted earlier, the business in Australia grew well despite reducing inventories in preparation for a major product relaunch in the second quarter.

Revenue in North America was down 6%, reflecting significant destocking we talked about earlier, particularly in the US and Canada, as well as softer demand. However, adjusting for reduced trade inventories, revenue was unchanged.

In South America, revenue growth of 10% was strong in a more challenging economic environment, with market share gains and modest volume growth underpinning the positive performance.

Turning to our cost saving initiatives and margins, our underlying operating margin improved in line with our internal expectations. This was led by the continued implementation of our Vision

into Action business plan. As detailed in the press release, we announced further supply chain reconfiguration projects and headcount reductions in Nigeria during the quarter.

There are a couple of additional points to note as you think about the outlook for margins. Firstly, as it relates to our marketing investment, we have been taking advantage of media spend deflation to maximise the return on our media investment. In addition, with a strong innovation programme planned for later in the year, we are likely to invest more in marketing in the second half.

Secondly, with volumes down, we are taking the necessary cost control actions in the plants to minimise the impact of any overhead under-recovery. All this underpins our expectation of our ability to deliver good margin progression in 2009.

Finally, before I hand you back to Todd, a few words on the balance sheet. We completed the sale of our Australia Beverages business in early April for £550 million and we also issued a new 300 million Sterling bond in March. As a result, our financial position is strong with secure, long-term financing in place.

I'll now hand you back over to Todd for some closing remarks

Todd Stitzer: Thanks Andrew. I'm going to summarise and end with the outlook for the year. We've made very satisfactory progress in the first quarter despite cycling tough prior year comparatives. A strong chocolate performance and good growth in emerging markets more than offset customer destocking and softer demand in North America and Europe. Our Vision into Action plan remains on track to deliver planned central, SG&A and supply chain cost savings we told you about, as well as growth, efficiency and capability benefits that we've described for 2009. As a result, we reconfirm our guidance to deliver revenue growth around the lower end of our 4-6% goal range and to make good progress toward our goal of mid-teens margins by 2011.

Thanks for your attention and now, Andrew, John and I would be happy to take your questions.

Operator: Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please press the *key followed by the digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. We will take questions in the order received and take as many as time permits. If you find that your question has been answered, you may remove yourself from the queue, by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal for questions.

We'll take the first question from Marco Gulpers from ING.

Marco Gulpers: Yes, good morning all, this is Marco Gulpers from ING. I have three questions if I may. Could you update us the volume versus price differential in chocolate, in gum and in candy, just to give us some more background on the trends there? The second is on the trends in the US; could you update us on the different channels in gum, how they are performing and especially some light on the impulse channel? The final question is on your margins in the first quarter; you mentioned the underlying margin is up in the first quarter; could you update us a bit more in detail on what kind of cost saving benefits you are getting into the first quarter; and also maybe shed some light on the reduction in A&P spending in the first quarter? Thanks.

Todd Stitzer: I'll take the question on gum in the US; Andrew will take the volume question and the margin question.

Andrew Bonfield: Let me start with by category on price volume. As you will see, we have actually given you price volume data overall. I'm not going to give it to you by category; the reason for that is because given that this is a very short reporting period and the size of the numbers, you

are going to see some distortions. But the two points to note on both price and volume; one, we have managed to retain most of the price increases we put through, particularly in chocolate in the fourth quarter of the year, I know that was a concern for many of you.

Secondly, on volumes; we have seen a volume decline of around 3% in the quarter, excluding the impact of destocking, that would only have been 1%. Again, I think as we gave our revenue guidance for the year at the beginning of the year, around the lower end of the range, our expectations of price would be somewhere around about 4% of say input costs inflation of between 6-8% and we still expect that to remain for the year. On margins; again, we don't report margins for the quarter, but we are making progress in line with our internal plans, that gives us confidence that we will achieve the good margin progression for the full year, as per our guidance. On media spend deflation; we are seeing in the market, somewhere between 5-10%, it depends whether you are talking about advertising spend deflation or actually in newspapers, there are differences between the different categories. We will take advantage of that deflation, not just to make savings, but also to actually improve our overall trade spend mix, as well as our advertising mix, to see what we can do to drive the business – our focus here is driving long term growth for the business as a whole. There will also obviously be some mix difference in the first half/second half, because of our innovation programme and the timing of innovation.

Todd Stitzer: Let me answer your question on gum and channel growth and perhaps make just a few comments about gum in the US. First, to answer your question simply, gum is growing faster in the grocery channels than it is in the impulse channels and you will have known from prior conversations, that impulse channels for gum have a larger share, at least in our business of gum, than grocery. That's driven by fewer consumer trips to impulse outlets; I think consumer trips to gas convenience channels were down for most of 08 and the beginning of 09, in the sort of 5-6% range, which clearly affects consumption. But just to give you some greater perspective; from about 2000 – 2004 the gum category in the US grew about 4%, from 05 – 07; so for three or four years it grew 6-8%, we grew 10%, ahead of the category. In 2008, the category grew about

4%. It grew very strongly in the first three quarters and quite weakly in the fourth quarter. It is strengthening as we go through the first quarter; so in the first quarter we recorded about a 4% category growth overall in the US and in each successive month for us, after the destocking our revenues have improved. So from an overall perspective in US gum, innovation, I mean you've got the economy on the one hand, but innovation over 05 to 07 drove the market with platform changes from us of three items, flavours, centre filled pellets and Stride long lasting.

Wrigley's – the last big gum innovation in the US market was in the middle of 2007, with Wrigley's 5, so 08 was a relatively sparse innovation year for gum; when you think about that in the overlay of what was happening in the economy, it's not surprising that the category growth was down. Category growth seems to be strengthening in the first quarter, the destocking is a one-time event from our perspective; we have a very strong innovation programme for the second half. So we have a strong belief that with consumer penetration in the US at 70% for gum and with heavy users chewing two packs of gum every 28 days, we think there's a significant gum opportunity remaining in the US that will continue to be accessed through excellent innovation and investment in marketing and that's what we're focused on, as we said in February, in the second half of 2009.

Marco Gulpers: So just to check up, a follow-up, sorry. In March, the gum category was already positive again?

Todd Stitzer: The gum category was indeed, it grew about 3.5% according to Nielsen.

Marco Gulpers: Alright. Thanks.

Operator: Your next question comes from Julian Hardwick from RBS.

Julian Hardwick: Morning. I've got a couple of questions. Could you just update us on where you've got to in terms of the pricing that you are planning for this year; have you now essentially done all your pricing, or is there still some more pricing to be taken? Secondly, I wasn't quite clear from Andrew's comments on margin, whether he was trying to allude to a phasing issue overall in March in evolution between first half and second half; I just wondered if that is the case and if he could just provide a bit more colour on that for us? Thank you.

Andrew Bonfield: Okay Julian, let me give you first on pricing. We took the price increases we needed to offset input cost inflation in the fourth quarter of last year; we don't anticipate needing any additional pricing for that in 2009. Obviously we will have to re-visit pricing in 2010 depending on what happens with input costs as we look out there in our plans. On the margin, there are going to be a number of factors which impact margins, as you look first half/second half. There may be some mix impact, with the difference between chocolate, gum and candy, which may have some impact on gross margins in the first half. From a marketing spend, we do expect marketing spend to be more second half weighted, based on the timing of innovation, so that will offset some of the gross margin mix impact as we look at 2009. Other point to note on margins, is that most of our cost savings will be coming through the SG&A line, that is driving most of the margin progression as we look out through the year; so most of that will occur pretty evenly throughout the year and other SG&A costs.

Julian Hardwick: So net-net, should we expect to see a significant difference between first half and second half margins?

Andrew Bonfield: I think overall the likelihood is margin progression may be slightly second half weighted; also if you look at the mix last year Julian, I think the mix and margin progression was much more first half weighted; I think margins were up 160 basis points in the first half of last year.

Julian Hardwick: Great. Thanks a lot.

Operator: Your next question comes from Alex Smith from Nomura.

Alex Smith: Hi, good morning. I was just wondering if you could talk a bit more perhaps about the impact of the tougher economic environment on consumer buying patterns across your different categories; you talked a little bit about gum, but maybe you could touch on more about candy and chocolate, what impact you're seeing there? Secondly, on Halls, I think you cited an unhelpful flu season in the first quarter; am I right in thinking Q1 last year was a very beneficial flu season for you and I think you had a pretty tough comp in H1 – up 13%. What was the comp in Q1 please?

Todd Stitzer: We'll get that for you. I'll answer the first question and we'll get you the answer on the second. As it relates to consumer buying patterns; I think one of the great benefits of our portfolio is that we have great breadth in category participation and geographic participation. So, as it relates to consumers, it would be fair to say that our chocolate business is in rude health because consumers, you've all heard about the stay at home phenomenon where people are basically staying at home watching television or DVDs with their families. Eating affordable treats and snacks at home that are connected with brands that they know and love; and the Cadbury brand in particular, falls smack into the middle of that very attractive dynamic for us, at the moment. Over the last 3-4 years, Trident in particular and our gum brands around the world, took advantage of an increasingly mobile impulse orientated world; the world has shifted because of the economic circumstances and it shifted right smack into the chocolate category, which is a good thing for us. You've all asked questions in prior calls about down trading – guess what – there's little private label penetration in chocolate; we are the mass premium preferred brand in the chocolate markets, where we're number one and number two, that is clearly evident from the 7% growth in chocolate revenues, that you've seen and the outstanding growth in our big chocolate markets that we experienced in the first quarter. I mean the Wispa bar that we launched 26 weeks ago, is now the number one countline in the UK. We've sold one Wispa bar

for every human in the UK, since October. So, I think that's a great thing about our portfolio. Candy, similarly, is one of those products where a bag of sweets around a television or a video console, is a great thing for a family; and Halls, if you take Halls out of our candy business, our candy business is up 2% and in our big candy markets such as the UK, even the US, Swedish Fish and Sour Patch Kids are up double-digit. Maynard's and The Natural Confectionery Co. are up double-digits, high single-digits in our big chocolate and candy markets. I hope that's response to your question. On the Halls, John...Andrew...

Andrew Bonfield: Alex, I see when you refer to flu season, then you're referring to my prior life in the Pharma industry, because we were obviously always focused on whether it was a good flu season or not. But obviously that did have an impact. What you see is that in Halls, there is selling in the fourth quarter. So what actually happened is you'll see trade destocking, particularly in the first quarter of this year, because of the weaker flu season. Last year, because there was an extended flu period, actual sales growth in the first quarter, was 11%; so it is a tough comparator and we did have the destocking impact as we went through the quarter. Second quarter last year, we did actually have a 16% sales growth as well.

Todd Stitzer: By the way, Halls in the US has gained about 100 share points I think over this quarter and probably has the best share position it's had in a while. There's nothing wrong with the Halls brand that a good flu season won't help cure, at least in the United States. Halls, outside the United States, actually grew pretty well, it's just that the US is a very big Halls market and it's driven by the functionality around cough/cold as opposed to the refresh functionality that it uses in a lot of the hot climates in the world, such as South America, Latin America in general.

Alex Smith: That's great, that's very helpful, thank you. Just a quick follow-up in chocolate; are you actually seeing any benefit at all from trade down from Premium chocolate to your more mass market positioning; I guess in that context, how is the Green & Blacks doing?

Todd Stitzer: Green & Blacks had a great Easter but a tough first quarter, because it was cycling some really good comparatives. I would say and remember Green & Blacks for us represents about 1% of our revenues. It's quite a small business. I would say, Premium chocolate, actually recent statistics in the US, say Premium chocolate has actually grown quite handsomely in the first quarter. I would say as an observation, our brand is in the sweet spot in terms of being the right price with the right profile from a brand perspective and a consumer attitude or practice perspective right now.

Alex Smith: Okay, thank you very much.

Operator: Your next question comes from Martin Dolan from Execution.

Martin Dolan: Morning guys. Just a quick one if I can; you said that the difference between US sales and consumer off-take was 10%. If we assume roughly 4-5% pricing, that would mean volumes could be down by 15%; what's happened to your inventory, was your capacity utilisation down by 15% or did you produce in expectation of a re-stock?

Andrew Bonfield: Martin, it's Andrew. Let me answer. The 10% was in terms of value, so it includes volume and price impact in that. Volume was down, but obviously we will make sure that we take the right actions to avoid any negative overhead implications. We aren't building in anticipation of a re-stock; the trading destocking actually occurred within one major distributor, was the 75% of the destocking in the quarter. They've taken their inventory levels down from around about 30 days to around about 17 days. We're not anticipating at this point in time we'll see a re-stocking impact. Our guidance for the year assumes that everything will stay as is for the remainder.

Martin Dolan: Okay. Just a follow-up if I can. Are you still broadly happy with the expectation of 90 basis points, which is consensus for margin growth?

Andrew Bonfield: Consensus is currently actually running between 70-80 basis points. As we said, we're still comfortable with that.

John Dawson: That's a constant currency number. I mean if you factor in foreign exchange, you're adding another 25 basis points; so the reported movement may be closer to your number than you have Martin, so that might be what you are using.

Martin Dolan: Great. Thank you guys.

Operator: Your next question comes from Sara Welford from Merrill Lynch.

Sara Welford: Morning. Just a couple of questions. First of all, in terms of your price mix of 5%; do you expect that to continue just in terms of promotion etc. You said you don't expect to see any further pricing from here, but what do you expect broadly speaking in terms of promotion? Secondly, can you tell us directionally in terms of categories, were the volumes down for every category, without sort of giving us the exact numbers? Finally, was there any impact at all from Woolworths in the UK etc. and obviously they were quite a big seller of Easter eggs and I think those Easter eggs ended up being sold by Tesco? Thanks.

Andrew Bonfield: On the 5% price, if you remember we actually put the price increases through in the fourth quarter of last year. So the full year benefit will be less than the 5% in the first quarter of this year as we lap that in the fourth quarter. So the price benefit will be lower as we get there. The pleasing point to note, is we are not having to trade away the price, so we've actually been able to retain that; we've been very disciplined around that and I think that's part of one of the benefits you're seeing coming through. On the individual categories, the volume impact mostly, as you would be expecting, would be in gum and candy, where you did see trade destocking, that's as much colour as I'm prepared to give you on that at the moment.

Todd Stitzer: Again, I'd emphasise ex destocking, our volumes were down 1%, which is a very, very manageable dynamic in our business, to the extent that we have had volume declines. We've been very, very assiduous in doing the kinds of things that you do to control costs in overhead circumstances, so I think we've got that well in hand and the volume monster does not scare us. We're working hard to manage it, just as anyone would manage it. Your third question again was?

Sara Wellford: Just Woolworths.

Todd Stitzer: We managed to act pretty quickly with Woolworths to transfer the inventory of shell eggs that we had with them to other customers I think. You heard us say that our shell egg and Creme Egg sales were up 20% at Easter. We had one of the best Easters in history, so I would have to say that Woolworths didn't affect us at all at Easter and I think that their trading has been taken up by other retail factors in the UK.

Andrew Bonfield: The other point just to note on Easter is; we will still see some Easter impact in the second quarter, given the fact that Easter was late and so it wasn't just putting everything into the first quarter, we will see some continued benefit from that, particularly in the chocolate businesses in the second quarter.

Todd Stitzer: I think just to be clear on that; if you're tracking days of selling at Easter, this year there were 21 more selling days for Easter as compared to last year. 10 or 11 of those fell into the first quarter and 10 or so fall into the second quarter. So we will have a positive impact, particularly in our chocolate – big chocolate markets – from Easter in the second quarter, so I think that's a positive that we see for the second quarter. In addition, I think you heard Andrew indicate and we've indicated before, we're re-launching our Cadbury franchise in Australia as we speak, which is another positive for the second quarter. We are hopeful that the kind of results we've had in

the UK over the last two years in that dynamic, will be repeated in Australia throughout this year. As we said, we have a strong innovation programme in gum in the second half. We feel, I think, good about the Easter split and the opportunity for revenue growth in the second, third and fourth quarters.

Sara Wellford: Okay, thanks.

Operator: Next question comes from Alex Molloy from Credit Suisse.

Alex Molloy: Good morning guys. Todd, you referred a couple of times to Q1 comps being tough. Could you just remind us how the comps went last year; it strikes me that volume growth was 1% in Q1 and 1% for the year, or am I wrong about that?

Andrew Bonfield: Q1 last year, we didn't give a volume number in the first quarter of last year. So that's not a particularly...

Todd Stitzer: We had revenue of what...

Andrew Bonfield: Revenue was 8% for the quarter last year, so it was a decent revenue quarter, strong across all categories.

Alex Molloy: And revenue last year would have been probably 3% volume and 5% price, right, roughly?

Andrew Bonfield: The first part of the year, you were probably looking at still getting, I'm trying to think of the phasing and the price increases, we have a strong price phase in the first half of last year because of the gum increases, so it was probably 6 and 2. It was basically 6 in chocolate, 12 in gum and 6 in candy, in terms of not volumes but the overall pricing growth.

Alex Molloy: Thanks, just trying to understand this Easter 21 extra selling days versus last year. Is your view on that, that's basically a benefit all round. I mean I think some people had thought that because of the later Easter, then Q1 would be negatively impacted and Q2 would be positively impacted. But you seem to be saying that Easter was good in Q1 and will also be a little bit of a benefit in Q2?

Todd Stitzer: Yes. I mean Easter for Cadbury is a big season. We sell Creme Eggs; Creme Eggs are sold as countlines basically. They go on sale December 26 every year and they literally sell all the way through Easter. It is a very high margin, high volume product and that makes a big difference to us. Our Creme Egg sales were up 14% this year over that period.

Andrew Bonfield: They were up 14% for the product as a whole and 20% if you look at it in UK market.

Todd Stitzer: So again, I know there's lots of comments out there by various consumer product companies about what Easter meant; but for a consumer product company that sells confectionery and a lot of chocolate, Easter is a season that starts the day after Christmas and ends the day after Easter. So it's quite a benefit. Just for fun, next year, there are 10 extra days, as compared to last year, but they are less than this year's.

Andrew Bonfield: I think Easter is on 4th April next year, so it will be a slightly earlier season.

Todd Stitzer: So next year it will be slightly earlier, but not...2008 was the earliest Easter in 75 years or something like that. The difference this year is quite noticeable given our participation in Easter.

Alex Molloy: Excellent, thanks. One quick final one, if I may. Can you just remind me of the big price rises that you put through, not the big, I mean the major price rises you put through. US gum was last September/October a 7% or something, is that right?

Andrew Bonfield: 8%.

Alex Molloy: Then there was some chocolate price rises for the Easter season, is that right?

Todd Stitzer: Chocolate price rises were for Easter and everything.

Alex Molloy: Did you give some indication of magnitude there; I guess it's different across the board?

Andrew Bonfield: Exactly. We didn't give a specific indication of the magnitude, but just to indicate that it was sufficient in order to recover the overall cost of raw material inflation going into this year, particularly in chocolate, which as you know is where we've seen the biggest impact for 09, particularly as a result of cocoa price increases. We didn't give too much of a detail on the price increases obviously.

John Dawson: Alex, just one other quick comment on Easter. The actual underlying performance in countlines in the UK was also very good, so it wasn't just Easter substituting for other areas of chocolate; we actually got a good buy-in over Easter, plus there's also countlines, strong countline growth. In fact, we are pleased to note that Wispa is now the number one brand in the UK. So that's an indication of some of the growth we've been achieving in the underlying business as well.

Alex Molloy: Thank you very much.

Operator: Your next question comes from Martin Deboo from Investec Investment Bank.

Martin Deboo: Morning gentlemen. It's another question on the...clearly very popular topic of Easter in the UK, I'm afraid. The question is really around, can you just talk to me about what you think the quality of your growth was at Easter, the sales growth was clearly very good; but I guess what's in my head is particularly in the shell egg business, you have to some extent it's your choice around how aggressively you compete in that market place. Then 07 and 08, you took a decision to walk away from some of the more aggressive volume. How would you characterise your trading stance this Easter; have you been consistent with 07 and 08 or have you chosen to be more aggressive?

Todd Stitzer: We deferred in 07 and 08, because we couldn't rationalise the cost of participating. This year, the cost of participating has been sensible in the context of our margin goals and we participated. So, it would be true to say that our Easter this year benefits from the fact that we participated with all large retailers in the UK, whereas in prior years we did not, because we couldn't agree on the right economics. So I think we've been able to agree on the right economics and I think again, as I said just a few minutes ago, Creme Eggs have attractive margins for us, we've had significant incremental Creme Egg sales, shell eggs have a different profile but we've been able to have a properly economic participation in shell eggs this year. I don't think we will have any negative impact from a margin perspective on our Easter participation.

Martin Deboo: Could I de-code from that the disappearance of Woolworths has created a more orderly market at Easter? Is that what is going on or am I making the wrong conclusion on that?

Todd Stitzer: I don't think I'd go quite that far. I mean I think there was hard trading at Easter by a very competitive large retailer universe. I certainly think at least as it relates to Easter, Woolworths hasn't been missed. I can't tell you what that means for the rest of the year but as it relates to Easter it hasn't been missed. The other retailers stepped up and basically filled the gap.

Operator: Next question comes from Jeremy Fialko from Redburn Partners. Please go ahead.

Jeremy Fialko: The first one is Southeast Asia. In your statement you mentioned that some markets there were a little bit weak. Could you perhaps elaborate on that a little bit more? And then coming back to Easter in the UK, I know there have been some stories circulating about the very high ending stocks of Easter eggs and things like eggs being returned to manufacturers. Is there any truth to that; has there been any difference to what you've seen in previous years, thanks?

Todd Stitzer: As it relates to Southeast Asia, the two difficult markets for us there are Thailand and Malaysia. I certainly think you can imagine the continued, the sort of political and economic instability in Thailand has impacted our business, not to any sort of disastrous proportions but it's just difficult trading in that kind of environment. We also took some pretty significant price increases in those markets, particularly around Halls where our business is off. Similarly in Malaysia we took price increases on chocolate there that people have to get used to in a difficult economic environment. I think it was more than majorly offset by continued excellent growth in India and an excellent first quarter in China where we had a very good Chinese New Year trading period, so that's the Southeast Asia question.

In terms of Easter stock overhang that experience is not an experience we've had. I mean we've sold through very well. I think the article you noted was a couple of weeks ago and I suspect perhaps a bit premature because the Easter...Easter for our products, my personal experience was I was trying to find mini eggs Easter weekend and went to five places and couldn't find any, so I think a lot of people had the same experience. Green & Blacks sold most of its Easter eggs before Good Friday, so we haven't had the same experience, if that indeed is the accurate reflection of experience.

Operator: Next question comes from Alan Erskine from UBS. Please go ahead.

Alan Erskine: Just a couple of questions around the destocking issue. First of all could you tell me what visibility, how accurately you can measure the destocking phenomena? Secondly, Andrew, you mentioned that what we've seen there is a reduction in levels of inventory. I mean is that a costless reduction or is that impacting the distributors' own service levels? I mean were they running with simply too much inventory or are they now running with perhaps too low inventory level? Thirdly, the destocking does seem to have been concentrated into one distributor. I mean as you scan the horizon for the rest of the year could destocking still be an issue in subsequent quarters?

Andrew Bonfield: The way we have measured it and I have some expertise in this area because of previous experience with measuring and comparing our offtake from Nielsen and IRI data compared ex-factory sales. That gives you a reasonable basis for working out what the destocking impact is. Because we could verify this very easily with a very significant distributor in the US, who was responsible for quite a significant part of product, we actually were able to get good information from them. Obviously what we can verify as best as possible, there may have been [unclear] other destocking impacts both at the retail level and elsewhere within the system, which we haven't been able to fully measure so there may have been a little bit more impact or a little bit less impact elsewhere. We have made as good an estimate as we can given always within the constraints of not knowing with 100% certainty what full offtake is, but I think it's a reasonable basis.

As regards other further inventory changes, we've actually just had an update with our US business by April and we're currently, at a gross sales level, we're running very much in line with our own internal expectations, slightly ahead for April. So that gives me some comfort but there isn't any real additional destocking. We also didn't see any real significant impact in March. As Todd mentioned, it was mostly in January and February. That does obviously customer service levels but there are always efficiencies to be gained. When markets are growing fast, as we all

know, distributors tend to hold a little bit extra inventory because they want to make sure that they're always in the quick position to act quickly. In a slightly tougher economic environment they will tend to take it down. Whether it will rise again over time, in fact the distributor in question actually had stated a policy of 21 days and was actually running at 30 days. Over time it may gradually edge back upwards but we're not counting on that, as I indicated earlier as well.

Alan Erskine: Thank you and just one quick follow-up. I mean is there likely to be any impact in Mexico in Q2 from what's happened there or is that pretty irrelevant?

Todd Stitzer: Well, I think since we have a health situation that's basically a week old it's basically a little tough to read that right now. Our Mexico business in the first quarter was reasonably healthy, performing well within our goal range of revenue growth. We've got some interesting innovations coming in the second quarter in Mexico. I think it's way too early to read that to be perfectly honest with you. That would be my view.

Andrew Bonfield: I mean there will be some impact over Easter in Mexico, because of the holiday season there were actually less selling days. There was also actually a holiday this weekend as well which has some impact, which has probably benefit to the actually overall swine flu situation in that obviously people will not be going to work and hopefully that will reduce some of the risk of this expanding.

Operator: Next question comes from Pablo Zuanic from JPMorgan. Please go ahead.

Pablo Zuanic: First of all, when you talk about the chocolate business if you could split the performance in the first quarter within core chocolate and seasonal chocolate, you had 10% growth but the growth in seasonal seemed to be 14/20%. Does that mean that core was zero or down; can you elaborate on that please?

Todd Stitzer: Core was quite healthy, to be perfectly honest with you. As I think we said, Wispa became the number one chocolate bar; Twirl was the number two chocolate bar right now. We had very strong...our underlying...our market share without seasonal is up 170 basis points and...I'm sorry. Our UK standard product in the quarter was up 10.1%, so it's very excellent performance across the portfolio.

Pablo Zuanic: And then given the tone of what you've presented today to me it sounds very encouraging. You're saying first quarter growth Eggs is talking 4%, Australia Chocolate some quarterly innovations; second half gum, you're growing chocolates 7%, you have plans that help you with Easter in the second quarter; it sounds like you could easily well above your guidance of the low-end of 4 to 6%. How do you feel about that?

Todd Stitzer: I feel very confident about our guidance of the low-end 4 to 6% goal range. I mean I think you can see from the first quarter that we're living through a very interesting time and I think we're going to stick with our guidance until times become less turbulent and I think you guys want to rely on people who keep themselves focused and don't get over sensational, so our guidance is sticking for now.

Pablo Zuanic: One last question: when I see the growth in emerging markets, particularly in South America double digits and South America my understanding is mostly gum for you, is that coming a lot from pricing and if I'm right the pricing has been driving the growth in emerging market gum; is that sustainable? Don't you start facing some push-back at a certain point? The second question really for the US. Price increases in gum for the last two years are probably mid to high teens. One would think that at some point the categories start to see some push-back.

Todd Stitzer: Well, I think as it relates to the US that is a very appropriate observation Pablo. I mean I think the combination of mid teens price increases over 15 months in a difficult economic environment have given the consumers something to think about. I think we can easily course

correct in that regard. As it relates to Latin America, the phenomenon of currency and price increases is something that has to be a part of our business model. When currency requires it we take prices increases and certainly our revenue in South America has been driven by price increases but our shares continue to increase and our volume is up, so I think we have a very healthy dynamic in South America, as it relates to both price and volume.

Pablo Zuanic: If I may just one last follow up. Does the company face any significant FX transaction risk or are your production and distribution markets pretty much well matched?

Andrew Bonfield: We did have some FX impact in input costs, as we mentioned. I think Ken mentioned that at the fourth quarter review and that is still into our input cost inflation of 6 to 8%. Like everybody who reports in Sterling we are impacted from an FX perspective with imported goods into the UK in particular and that is one of the factors in input costs and one of the things we have to manage going forward.

Operator: Next question comes from Andrew Wood from Bernstein. Please go ahead.

Andrew Wood: Good morning, three questions. Firstly going back to the destocking issue we heard nothing of destocking from Hershey or Nestle, so is this a Cadbury specific issue related to a Cadbury specific distributor and if so is it you've just been unlucky; have you been overly aggressive in stocking up in the past; what's the dynamic here?

Secondly, I mean even if we accept the destocking excuse you've still got negative volumes of 1%. I'm just wondering whether or not you would attribute negative volumes to the weak economic situation or the strong pricing that you've taken. Is that possible to split or give some sense as to what you see is driving the negative volume?

The third question is on the emerging markets and specifically Eastern Europe. You said your emerging markets grew at 6% but we also know that South America grew at 10 and Asia grew at 11 and Middle East/Africa grew at 12, which suggests that Eastern Europe must have been a disaster and obviously that's hidden within the European figure. Could you just give us a sense as to how bad Eastern Europe was and what your sense is as to how that can recover in the balance of the year?

Andrew Bonfield: Let me start with the negative volumes of 3%. Destocking, as indicated, is about 2% of that. In addition just to remind you the year-on-year we did see the impact of resizing which still has an impact on volume, particularly in the UK in our core CDM business, for example, where the size was taken down from 250 to 230 last year, so we're still lapping that year-on-year. When we say volumes are down by 1% is that a worry? Some of that is SKU reduction, some of that is resizing. It's part of the business plan and it's not out of whack with where we indicated at the beginning of the year when we said we would be around the lower end of the range – most of that was likely to be price and so it's not out of kilter with our overall expectations.

On Eastern Europe, Russia was down. As I indicated in my comments, Russia was impacted by changes in distribution arrangements we attempted to put through last year, which unfortunately didn't recur. We are also seeing with the devaluation of the Rouble, we've had to put through price increases and generally outside the major cities in Russia the economic circumstances haven't been great, so add that onto the distribution changes and that has had an impact on our business.

On Nestle and Hershey particularly, obviously most of their confectionery brands are chocolate-related rather than broader confectionery...if you look at the destocking impact in the US most of it was around gum and then the other part of it in candy was Halls, which relates to flu season. There are specific reasons, I believe, for not having comparable reports with what they were

saying and there are differences based on our own particular business model and some of the things that we were facing.

John Dawson: I might just add one thing, coming back to your point is the volume weakness by broader macroeconomic environment or pricing, if you look into the detail of a lot of the available market statistics, when you adjust for price, most of the major developed markets you are seeing flat or negative volume growth in confectionery at this time. Whether that is led by the fact that all of the main companies have been increasing prices to drive recovery of raw material cost is a debateable point, but there is a consistency across the markets, particularly where you can get the good statistics, but volumes are down. In that sense the consistency of our market share gains both in chocolate, gum and candy provides us with the reassurance that what we are doing in terms of the planned positioning and so on is not out of kilter with the market; if anything it is successfully strengthening our position at a time of general market weakness.

Andrew Wood: Okay, going back to the Eastern Europe question, is it possible to give us a sense of how big this is?

Todd Stitzer: This is not an open season on every market in the world, but emerging markets in Europe were down about 5% driven by Russia and Turkey being down around 10, offset by Poland plus 7. I mean you spoke about a disaster; it's not a disaster. It's just business as usual. They're having a difficult time, frankly, from an economic perspective and in Russia we have the overlay of the route to market changes that we implemented in May, disimplemented in August and September, and we're still living through that in the context of a serious Rouble devaluation and a difficult Russian economy. I mean we're focused on it; we're not staying up all night because we think there are solutions and a way through.

Operator: Next question comes from Jeff Stent from Citi. Please go ahead.

Jeff Stent: Morning, just a quick question on the volume outlook for the remainder of the year. I think Andrew said earlier that the circa 4% revenue gain is for the year, your assumption most of that would be price. I guess in the context of the Q1 volume development therefore should we assume that over the remainder of the year volumes will be positive? A sort of add-on to that is that you quantified volumes in Q1 last year at +2, I think it was +1 for the first half, therefore flat in Q2 and you think we're through destocks, so I'm sort of feeling that we should be in positive territory in volumes in Q2 as well. Any comments on that?

Andrew Bonfield: Yes, just let me...just reiterate the point. I think we didn't expect a significant volume increase or decrease for the full year. The impact of destocking our volumes was 2% in the quarter. That will equate to about half a percentage point for the full year. I don't think it's going to be a significant full year impact as we go through; we probably don't expect it to recover. Most of the increase, as we've indicated, to get to our guidance range will be through price, but I think we obviously would hope that we are able to generate positive momentum for the remainder of the year, but given the current economic environment obviously we are going to be prudent before we would reflect that.

Todd Stitzer: Also there is a lot going on in the volume number with SKU rationalisation and resizing, so I mean at this point in the year calling what the volume is for the full year is just not a prudent thing for us to do right now.

Operator: Next question comes from Darren Shirley from Shore Capital. Please go ahead.

Darren Shirley: Yes, good morning guys, just another question on destocking. I mean you've obviously commented on the one customer or distributor in the US, but is there any other single customer that you've got there out in the US or globally who if they decided to be more aggressive on inventories could have a material impact on volumes?

Andrew Bonfield: I think, as I indicated in March, we saw limited or no impact to destocking; in April we're not seeing any further. This was the largest single distributor that we distribute through in the US, so I think our overall perspective is we think the worse is behind us; we're not expecting much impact if any for the remainder of the year.

Darren Shirley: I mean are there any single distributors out there that it would have been worth to be more aggressive could impact?

Andrew Bonfield: There are always customers out there who could impact their inventory levels, but I would just say that we're not seeing that at the moment. We believe the worst is behind us.

Todd Stitzer: Just a comment from a practical perspective, any retailer worth its salt who was worried about managing cash and inventory would've probably taken these actions over the fourth quarter and into the beginning of the first quarter, so I just think the...assuming we've been bouncing along the bottom for awhile I think most good business people would have taken these actions already, so I think that's why we're reasonably comfortable that we've seen the worst of it. Could there be a little bit here and there? Sure. Could somebody change or could the economy get worse? I guess, but we're trying to be pragmatic in how we approach it.

Operator: We take our final question from Simon Marshall Lockyer from Jefferies.

Simon Marshall Lockyer: Good morning, just a couple of questions – one on payment terms. We've talked a lot about destocking but we've seen that the trade, particularly in the UK we've had indications that trade is trying to move its payment terms from the 30 days and upwards – some of them up to 60 days – have you seen any of that? What is your experience of this currently? And if you have seen payment terms deteriorating from the trade have you been able to pass on some improved trade payment terms for yourselves to your suppliers?

The second question is just the phasing of the ramp up and the continued ramp up of the two Greenfield sites in Poland and the tie into the Vision into Action programme. Could you give us some indication at this point given the very sharp decline in Zloty even against Sterling of what your benefit has been in terms of production margins at a marginal rate at this point from the Greenfield sites in Poland?

Andrew Bonfield: On payment terms, we have not changed payment terms with anybody and one of the things we are seeing in some markets are attempts by some distributors in some of the emerging markets to extend payment terms. We are not allowing that and in fact we are withdrawing trade rather than actually carrying on trade in that environment, particularly where we believe they are potentially financially distressed. We are managing very closely receivables and where appropriate put arrangements in place to make sure we're not exposed on that.

On the Zloty exchange rate, yes the Zloty has fallen back against Sterling but actually it's more closely aligned to our original base case assumption because actually what happened is the Zloty appreciated against Poland at the beginning of 2008 and now it's just coming back actually in line with our base case. There is no assumption of additional benefit over and above what our case was, and most of that benefit will flow through in '10 and '11 anyway. Plants are up; the chocolate plant is up and running and producing – the gum sorry – and we are also producing some chocolate for the UK market as well, so we are seeing some of that flow through but not significantly to the bottom line here.

Todd Stitzer: Just to be clear in Poland, there was a major addition to an existing chocolate factory which has been completed and is up and running, as Andrew said, and producing a number of products that come back to the UK. The gum plant was completed and commissioned in October and November and is now up and running, and the major chocolate plant I think the steel structure foundations, all of those things, have recently been completed and it's chugging along on track.

Simon Marshall Lockyer: Thank you.

Todd Stitzer: Okay, I think that's it for questions. Absolutely excellent interactive session, so thanks a lot. For those of you who got up early in the US morning, thanks for doing that. Look forward to seeing you in person in the not-too-distant future and thanks for your interest in Cadbury.

Operator: Thank you. That concludes this conference call. Thank you for your participation ladies and gentlemen. You may now disconnect.