

**Cadbury plc**  
**Q3 IMS**  
**Afternoon Teleconference Call Transcript**  
**21 October, 2009**

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Operator Good afternoon, ladies and gentlemen, and welcome to the Cadbury Results conference call. My name is Dave. I'll be your coordinator for today's conference. For the duration of the call, you'll be on listen only, however at the end of the call, you will have the opportunity to ask questions. If at any time you need assistance, please press star zero on your telephone keypad, and you'll be connected to an operator. I'm now handing you over to John Dawson to begin today's conference. Thank you.

John Dawson Thank you very much, and hello, ladies and gentlemen, and welcome to our third quarter conference call. My name is John Dawson, Head of Investor Relations for Cadbury. With me today are Roger Carr, our Chairman, Todd Stitzer, our Chief Executive, and Andrew Bonfield, our Chief Financial Officer. Before I hand you over to the chairman, I would like to remind you that our forward-looking statements can be found on the back of the press release, and you should refer to these when considering any forward-looking comments or marks on this conference call. In addition, as a result of the proposed offer from Kraft Foods, announced on the seventh of September, we are now restricted by the UK Takeover Code in what we can say, particularly around financial guidance, whether of the current year or longer term basis. Our statement does include profit forecast information, and you will find important disclosures from our reporting accountant and financial advisors in our press release. We will not be able to provide guidance information beyond that set out in the release, and I would ask you please to bear that in mind when considering our comments and our answers to your questions. Thank you for your patience. I will now hand you over to the Chairman.

Roger Carr Thank you very much, John, and welcome everybody. It's good that so many of you are able to join us for our third quarter conference call. We are very pleased to report that our business delivered excellent performance in the third quarter. We're confident about the positive outlook for the fourth quarter, and are upgrading guidance for 2009. It is the strength of our operating performance under Todd's leadership that continues to underpin the Board's confidence in both our growth prospects and the potential for creating further material shareholder value as a pure play confectionary business.

In a few moments, I'm going to handover to Todd and Andrew, who will take you through the third quarter highlights and the detail underpinning our strong performance. Before we start, however, I would like to stress that today we will not be discussing the unsolicited approach made by Kraft. There is no new news. The purpose of this call is to share with you

the progress of our business since the first half-year, and on that score, there is much to talk about. Thank you, and I'll now hand over to Todd.

Todd Stitzer Thank you, Chairman, and hello everyone. I'm very pleased to report that we have made excellent progress in the third quarter. We've build on our momentum from the first half to deliver a strong performance with revenues ahead by 7% in constant currency. As a result of this performance, our revenue year to date is 5% ahead of the same period last year. At the same time, we've delivered significant margin improvements, while maintaining our commitment to marketing, innovation, and future growth opportunities.

In sum, our business has benefited from a more balanced performance in the third quarter, with growth coming through in every category and every business unit. Let me take you through our category performance, and Andrew will take you through our business unit and margin performance.

Chocolate grew 7% in the quarter. This reflected another good performance in the UK and across emerging markets led by India and South Africa. Innovation continued to play a major role in driving chocolate growth, and more importantly, in improving product mix and increasing margins. In Australia, the core Cadbury chocolate brand continued to perform well, with strong share growth across all retailers since its relaunch in May. In the UK, revenue benefited from the third quarter launch of Wispa Gold and the second quarter launch of bitesize bags, which continued to do very well.

Gum grew in the third quarter by 4%, reflecting sustained strong growth in emerging markets, particularly South America, as well as improved performances in some major developed markets. Gum innovation, which is expected to have a bigger impact in the fourth quarter, delivered a modest benefit from the September launches of Trident Layers in the US and Trebor Mint Gum in the UK. Innovation in South America included the launch of a new black pack for the Trident/Beldent franchise, and in Japan, we had some good success with a new centre-filled gum.

Candy delivered a strong performance with growth of 11%. Halls delivered excellent growth in the quarter, with increased share in the US and good product innovation in Brazil around Halls Creamy. Innovation was also a feature of our good growth in Japan, with the Xylicrystal brand and the new Halls Relax, a range of herbal products. In addition, our mainstream candy brands maintained good growth in the UK, Australia, and the Middle East and Africa.

Our emerging markets advanced further with revenue growth of 10% for the quarter, led by India, Middle East and Africa, and South America. In developed markets, revenue grew 5%, led by the continued strong performance in the UK together with improved growth in the US and Europe. As you heard, innovation played an important role in our third quarter performance. Nearly all our initiatives, which have been planned over the last 12 to 15 months, involved increased marketing investment

and a combination of size-adjustments or raising the average price per gram with our new count lines and bitesize products.

As a result, even though volumes declined by 3% and price-mix benefits were around 10%, we continued to gain good market share in a number of markets. Just to be clear on the volume point, our volume declines partially reflect the expected impact of higher prices and partially the planned impact of innovation-driven size reductions and SKU rationalisation.

Overall, I'm clearly very pleased with these results, and this strong performance continues to reinforce our confidence in the business moving forward. Let me now turn you over to Andrew who will take you through our business unit and margin performance.

Andrew Bonfield Thank you, Todd, and hello everyone. As Todd has emphasised, our performance in the quarter showed good growth across chocolate, gum and candy. We also delivered a more consistent performance across our seven businesses, with every one of them showing growth for the first time this year.

Looking at the third quarter of our business unit, the strongest performances included Britain and Ireland, where revenue grew by 10%, despite lapping a strong third quarter in 2008. In the UK, the launch of Wispa Gold combined with strong early demand for seasonal products, helped drive excellent sales growth in the quarter in chocolate.

In Europe, revenue was ahead for the first time this year with robust growth in Poland and Russia, helping more than offset continued weakness in France and Spain.

In Asia, revenue growth of 14% reflected an outstanding performance in India, where sales growth benefited from strong seasonal demand, with excellent sales of chocolate and gifting products.

In North America, the business benefited from a strong start to the cough/cold season for Halls and steady growth in other candies. In September, we launched Trident Layers, establishing strong coverage in Target, Walmart, and other large grocers, as well as being launched in the convenience channel towards the end of the quarter. Early reads of market share where it's been launched are very good. From October onwards, we are planning most of our heavier marketing campaigns to help build the product share across the market as a whole. All in all, a successful quarter for the US business, as they look to capitalise in the next few months on this exciting new product.

Turning to our cost-saving initiatives and margins. Our year to date underlying operating margin was over 180 basis points higher than that achieved in the first nine months of 2008 on a constant currency basis. This is ahead of the margin performance in the first half, and reflects the benefit of the strong revenue performance in the quarter. We continue to successfully offset input cost inflation, which we still expect to be in the

6% to 8% range for the year. Year to date gross margins are now 20 basis points ahead of the good favourable move in the quarter, reflecting in part the innovation-led mix benefits in the top line. SG&A costs were 110 basis points lower, reflecting the benefits of our Vision into Action business plan. Marketing spend remained 80 basis points lower than the prior year, which is consistent with the media deflation impact we discussed at the first half results. Absolute spend on marketing in the third quarter was unchanged compared to the same period in 2008 on a constant currency basis.

Looking forward, we remain committed to driving our marketing effort, and we expect marketing in the fourth quarter to be broadly flat on a constant currency basis. This would equate to a 50 to 60 basis point reduction in marketing as the percentage of revenue for the full year, and this is what has been reflected in that full year margin guidance. We have a number of marketing programs being initiated in the fourth quarter, but if we spend less than planned, we would expect this to increase reported margins for the full year.

As we look towards the end of the year, there are two additional points that should be considered. Firstly, in relation to revenue growth, we expect a slowing in some of our markets on a comparative basis, as they lap strong performances and innovation launches from the fourth quarter last year. But overall, we expect revenue growth to be in line with that progress in the year to date. Secondly, in relation to margin progression, we are lapping a strong fourth quarter performance last year, where our margin, as many of you will remember, was very good, and in particular was assisted by the one-off insurance recovery in China. This is why we have provided margin guidance for an improvement of at least 135 basis points on a constant currency basis for 2009.

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

Todd Stitzer Thanks, Andrew. Let me close by saying we've made excellent progress in the third quarter, building on our momentum from the first half of the year. We continued our strong performance in chocolate and good growth in emerging markets. At the same time, we've improved our performance in both the US and Europe. Our Vision into Action plan remains on track to deliver the planned central, SG&A and supply chain cost savings we first set out in 2007.

The benefits of our standalone pure play confectionary strategy continue to exceed expectations and we are therefore increasing our guidance for the full year. Our 2009 revenue growth is now expected to be around the middle of our 4% to 6% goal range, and our margin improvement, at least 135 basis points in constant currency.

Thanks for your attention, and now we'd be happy to take your questions.

Operator Thank you. Ladies and gentlemen, if you'd like to ask a question, please press seven on your telephone keypad. If you change your mind and want to withdraw your question, please press seven again.

You'll be advised when to ask your question. First question comes from Kevin Dryer from Gabelli & Company. Please go ahead with your question.

Kevin Dryer Hi, good morning, and congratulations on a good result. First, just a question on Asia. Very strong revenue growth. You said that India and China are offsetting some weakness in Southeast Asia. Any chance you can quantify that at all, as well as give some colour in terms of what's driving the strong growth there? Is it continued distribution gains, new products...?

Todd Stitzer India, I think, grew 21% in the third quarter, based on strong festival - it's Diwali season. It is a reflection of increased distribution, innovation on gifting. China, I think revenue grew 68% in the third quarter, but it's off a base that was affected by the melamine recall last year, so that's a small base and a ridiculous comparison. Southeast Asia was down 7% or 8% perhaps, so a robust part of the world, but all combined to do good double digit returns. I think China is increased distribution and availability on chocolate éclairs and Halls. That's what's driving the China business.

Kevin Dryer Okay. And in terms of the UK, can you give an update on what's going on with gum there? I noticed you said the launch of Trebor Mint Gum. Maybe you could review the dynamics in that market?

Todd Stitzer Sure. Until the launch of Wrigley's 5 earlier this year, the gum category in England had been down, mid to low single digits for, I think, a year and a half. It popped up a bit with 5. It popped up a bit even more with Trebor Mint Gum. I think it's growing now at sort of 2% to 3%. Trebor Mint Gum has a 5% share of the market. Our total share is 11.1, which is the first time we've have a positive uptick in share for probably a year. When we said we were launching gum, we thought it would take three or four years to get the profit, so we're still in somewhat unprofitable territory with gum, but we're pleased by the market response to Trebor.

John Dawson For those of you who don't know our UK product range well, Trebor is very well positioned as a brand within the extra strong mint market as a candy, and Trebor Mint Gum capitalises on that very strong positioning in that segment to create a good gum brand around that extra fresh, peppermint and spearmint flavour.

Todd Stitzer For those of you in the US market, the Altoids Strong Mint brands would be an equivalent, and Trebor Mint is the oldest and biggest mint brand in the UK. It's literally an umbrella brand proposition, where Trebor Mint and Trebor Mint Gum go together beautifully in hot zone displays and in our gum displays.

Kevin Dryer Great. And then in the margin guidance for the full year, at least 135 basis points in constant currency, to make sure I understand, in reported terms, it'll be a little bit above that, yes?

Andrew Bonfield Yes, it will be. It'll be about ten basis points higher than that as a result of currency. We're looking at 7% top line, 9% bottom line on currency impact.

Kevin Dryer Great. And then final question, now we're about a year since the Mars-Wrigley deal closed. Any noticeable competitive changes yet? Whether how they go to market in terms of their ability to secure shelf space or really anything else?

Todd Stitzer I would say nothing of great consequence. They clearly are in some markets modestly coming together either in distribution relationships or in joint display relationships, but there hasn't been, I would say, a significantly noticeable change in their operating styles yet. Certainly hints of it, but nothing significantly on a consistent basis.

Kevin Dryer Thanks again, and congratulations.

Todd Stitzer Thank you very much.

Operator Next question comes from James Targett from Consumer Equity Research. Please go ahead with your question.

James Targett Good afternoon. Could you give some colour in the breakdown of the overall 3% volume decline between chocolate, candy and gum. And also, talking about your good mid-teens margin targets, could you talk about the importance of contribution of gross margin expansion in achieving that target?

Andrew Bonfield James, it's Andrew. We do not give the breakdown of volume by category. That's not something we're prepared to do at this point in time. Needless to say, obviously part of what the performance is in the quarter will be reflected by what the relative volume contributions of the different parts of the business, so chocolate and candy would be better than gum, for example, in the third quarter. On progress of good mid-teens margins, I think, as we've been clear since June 2007 from Vision into Action, the first part of Vision into Action was really around SG&A savings. The second part would be mostly around supply chain savings. As we point out in the release, those supply chain reconfiguration projects are on track still. The Australia-New Zealand reconfiguration, the Europe-UK reconfiguration projects, and they'll be ongoing. Well on track, good progress, and that is part of the reason why we are increasingly confident of our ability to deliver good mid-teens margins by 2011.

James Targett So assuming commodity prices stay where they are, big assumption, what sort of magnitude of expansion in gross margins would you be hoping for?

Andrew Bonfield We have not give that guidance for obvious reasons under the Takeover Panel rules, it would be difficult for us to do that, given that that would actually be a forecast. We're not allowed to do that. But needless to say that the bulk of the next wave of progress will be coming through that line. As far as commodity prices are concerned, our

assumptions will be that we'll work on the 2010 input costs and inflation assumptions. We're doing our 2010 planning as we speak, and we should have that completed in the next few weeks, so by the time we get to the fourth quarter earnings results, we'll be able to give you an update on that.

James Targett      Okay. Thanks very much.

Operator      Next question is from John Cox from Kepler Capital Markets. Please go ahead with your question.

John Cox      Good afternoon, and let me say as well, congratulations. Great set of figures there for Q3. I have a couple of questions for you, just on the commodity side of things again. From your statements, can we assume that you're not hedged at all in cocoa through 2010 or are you just into the first few months of the year. And again on sugar, maybe you can remind us which, in terms of proportion of the overall portfolio, how much comes from the world market rather than some of the protected markets around the world. I wonder if you can give us some sort of indication of any hedging at all into 2010. That's my first question. The second question is obviously with the higher commodity prices, particularly cocoa, it looks like you're going to have to put through another round of price increases. I wonder if you'd had any early talks with some of the retailers and what they may think about that. And then I've a third question. It may sound slightly obscure. I'm wondering if you had to submit anything to the European Food Safety authority with the regulation going on there, and what the deadline might be on your part to submit anything, any health claims on your products, whether it's sugar-free or helps your teeth whitening, or whatever it might be.

Andrew Bonfield      On commodity hedging, obviously, we do not disclose publicly hedging policies, because those are commercially sensitive, not only for our competitors, but also given the size of the cocoa commodity market, there is a significant element of speculation in that market. We don't need to fuel that. Total exposure to the world sugar market as far as our total sugar is actually less than 50% of our sugar costs. In fact, in certain areas, sugar costs in 2010 will likely go down, for example, in the UK because of the liberation of EU prices. We're going to have to weigh that up, again, against dairy prices as well. We are starting to have those planning discussions on pricing. Not just within the business, but also externally. We won't be able to provide an update on that until February, which is when we complete our business plans as per normal. And on the European food labelling, I don't think there's any major impact there, John.

John Dawson      Not something that's come across our desks, John.

John Cox      Not yet.

Andrew Bonfield      Not yet.

John Cox      Okay, thanks guy.

Operator Ladies and gentlemen, we have no further questions in the queue. Please be reminded, if you want to ask a question, press seven on your keypad now.

A couple of questions have come through. The next question comes from Marla Simms of Brown Brothers Harriman.

Marla Sims Hi, congratulations on the results. First of all, can you remind us of the impact of the insurance recovery on your Q4 08 margins? And secondly, on marketing, while it's down as a percentage of sales, can you talk about whether you're maintaining your share of voice, and also, can you talk about how your promotional spending has been trending?

Andrew Bonfield Marla, the insurance claim was about 40 basis points of margin impact in the fourth quarter of last year, so that's the big, key part of that. On promotional spend, we're actually managing to hold on to most of our price increases. We're not seeing any significant increase in customer investment, and that's trending very much in line with where the basis were at the beginning of the year. You'll have seen the improvement in gross margins in the third quarter, and that reflects the fact that we aren't seeing that uptick at all.

Todd Stitzer Just on the share voice point. There are a lot of markets in our world, so it's difficult to have a generalisation about share of voice, but the impact of media deflation has been actually to give us the opportunity to have more spots and more GRPs, so I would say that in a number of our markets, share of voice is steady or increasing. As it relates to marketing in general, our forecast for the year is to be flat on marketing spend with marketing spend last year. It's the arithmetic of incremental revenue growth that shows up as a slight decline in marketing as a percentage of sales. So we're not cutting marketing, we're investing roughly the same amount and actually getting better benefits for it from media deflation. So that is the overall picture on the marketing spend.

Marla Sims Okay, just a follow up on the margins: it would imply, if the drag from the insurance is only 40 basis points, that would imply very little, I believe, margin improvement in Q4. Is that correct, or...?

Andrew Bonfield I would point out that our margin guidance is reported on by accountants and had to be subject to audit verification, and it's subject to their standards. It is a minimum for the full year guidance. It is not a range, nor is it a maximum.

Marla Sims Okay, great. Thanks a lot.

Todd Stitzer Thanks for your kind words about the results.

Operator Ladies and gentlemen, to remind you, please press seven on your keypad if you'd like to ask a question.

John Dawson        In the absence of any other questions, why don't I hand back to Todd for some closing remarks, and then we'll bring the call to a finish.

Todd Stitzer Well, on behalf of the Chairman, Andrew and I, thanks very much for your time. We appreciate your interest in the company and look forward to chatting with you in the not too distant future. Thanks a lot.

Operator        Thank you for joining today's call. You may now replace your handsets.