Description of Business

Description of Business

Our business

Introduction

Our principal businesses are confectionery and non-alcoholic beverages. We have the largest share of the global confectionery market with broad participation across all categories and by geography. In beverages, we have strong regional presences in North America and Australia.

In this section, we describe our continuing operations, therefore unless specifically stated otherwise, commentary and financials given in this section exclude Europe Beverages, which was sold on 2 February 2006.

Origins and portfolio development

Our origins date back to the founding of Schweppes, a mineral water business, by Jacob Schweppe in 1783, and the opening of a shop which sold cocoa products, by John Cadbury in 1824. The two businesses were merged in 1969 to create Cadbury Schweppes plc. Many of our key brands are long established, having been launched in the late 19th and early 20th centuries, most notably Cadbury Dairy Milk, Dr Pepper and Halls.

Confectionery Brands

Brand	Product	Date Launched
Cadbury	Cocoa Powder	1824
Bassett's	Sugar Confectionery	1842
Maynards	Sugar Confectionery	1880
Halls Cough Tablets	Cough Drop	1893
Dentyne	Chewing Gum	1899
Cadbury Dairy Milk	Milk Chocolate Bar	1905
Chiclets	Sugar-coated Gum	1914
Clorets	Breath Freshener	1951
Stimorol	Chewing Gum	1956
Trident	Sugar-free Gum	1962
Bubblicious	Bubble Gum	1977
Sour Patch Kids	Sugar Confectionery	1985

Beverages Brands

Brand	Product	Date Launched
Schweppes	Carbonated Water	1783
Mott's	Apple Juice	1842
Schweppes Tonic Water	Quinine-based Carbonated Drink	1870
Dr Pepper	Carbonated Soft Drink	1885
7 UP	Carbonated Soft Drink	1929
Hawaiian Punch	Non-carbonated Soft Drink	1937
Clamato	Tomato-based Drink	1969
Snapple	Non-carbonated Soft Drink	1972

Over the last 25 years we have significantly changed our geographic and product participation within the confectionery and beverages markets, mainly through a programme of acquisitions and disposals.

We have extended and strengthened our position in certain markets and categories where we believed we could generate faster growth at higher margins, and exited other markets and categories where we felt we had no sustainable competitive advantage and where a sale created value for our shareowners.

The most significant strategic moves over this period have been:

- 1986 and 1987 – sale of the food & beverage and health & household divisions
- 1995 – purchase of Dr Pepper/Seven Up, a carbonated soft drinks business mainly in the US
- 1997 – sale of Coca-Cola & Schweppes Beverages, a soft drink bottling operation, in the UK
- 1999 – sale of beverage brands in approximately 160 markets around the world
- 2000 – purchase of Snapple, a non-carbonated premium beverages business mainly in the US
- 2003 – purchase of the Adams confectionery business, a gum and medicated sugar confectionery business with strong positions in North, Central and South America
- 2006 – sale of Europe Beverages

On 2 February 2006, we announced that we had completed the sale of the Europe Beverages business. Following the disposal of Europe Beverages, we have four regional operating units: Americas Beverages; Americas Confectionery; Europe Middle East and Africa (EMEA), which sells predominantly confectionery; and Asia Pacific, selling both beverages and confectionery (see page 11).

We announced in October 2005 that we intend to dispose of a number of small non-core businesses and brands over the next two years with estimated proceeds of between £250 million and £300 million. In 2005, we sold Holland House Cooking Wines, with Grandma's Molasses following in early 2006. The combined proceeds were £37 million. On 8 February 2006, we announced that we intend to sell Bromor Foods, our South African beverages business.

The business today

Confectionery

Our confectionery strategy is to significantly grow our share of the global confectionery market through organic growth and acquisition and by participating in the three categories of chocolate, sugar confectionery and gum. In 2004, we had the number one share of the global confectionery market (source: Euromonitor), having substantially grown share through expansion both geographically and in product participation. We believe that our strong positions in confectionery markets, by both geography and category, provide us with a robust platform for future growth.

Our growth to date has been both organic and through acquisition, notably Wedel in Poland (1999), Hollywood in France (2000), Dandy in Scandinavia (2002) and Adams (2003).

The US$4.2 billion (£2.7 billion) acquisition of Adams in 2003 transformed our position in the confectionery market worldwide. With turnover of around $2 billion on acquisition, a global market share of 24.7% in gum, a focus on the important markets of North and Latin America and a strong position in the growing markets of medicated confectionery, Adams significantly increased our confectionery scale, product range and geographic reach.

At the time of acquisition, Adams had a significant market presence and operations in North, Central and South America which accounted for 75% of its sales. Key markets outside the Americas were the UK, Greece, Egypt, Japan and Thailand. Adams' sales were focused on a small number of global and regional brands, mainly in the gum and medicated sugar confectionery categories. With a number two share of the worldwide gum market, the acquisition added the Trident, Dentyne/Dentyne Ice, Chiclets and Bubbas range of gum and bubblegum brands to the Group. Halls is the number one sugar brand and the leading medicated brand worldwide (source: Euromonitor 2004).

We now have the largest share of the global confectionery market at 10%, an increase of 40 basis points over the previous year (source: Euromonitor 2004). This compares with a market share of 5.3% in 2001. (source: Euromonitor)

We have strong positions in many of the world's important confectionery markets: number one or two market shares in 24 of the top 50 (see table overleaf), and a leading market share in all of our geographic regions.

Main Confectionery Acquisitions and Disposals 1999 – 2006

Date	Company	Country	Acquired/Disposed; Percent Holding	Consideration	Description/Comments
Feb-99	Wedel	Poland	Acquired 100%	£49 million	The number one chocolate brand in Poland at the time of acquisition
Aug-00	Hollywood	France	Acquired 100%	Not disclosed	The number one chewing gum business in France
Feb-02	Cadbury India	India	Share increased from 49% to 94%	£111 million	Buy-out of the minority shares. By the end of 2005, our shareholding had reached 97.4%
May-02	Kent	Turkey	Acquired 65%	US$95 million	Turkey's leading sugar confectionery company
Sept-02	Dandy	Denmark	Acquired 100%	£222 million	Fourth largest chewing gum company worldwide at the time of acquisition with key markets in Scandinavia, Switzerland and Russia
Mar-03	Adams	US	Acquired 100%	US$4.2 billion	Second largest chewing gum business worldwide
Sept-04	Moirs	South Africa	Disposed 100%	ZAR152 million	South African foods division
May-05	Green & Black's	UK	Share increased from 5% to 100%	Not disclosed	Leading UK producer of luxury organic chocolate
Feb-06	Cadbury Nigeria	Nigeria	Share increased from 46% to 50.02%	£19.7 million	Nigeria's leading sugar confectionery, chewing gum and food beverages company

We have also agreed to make the acquisitions shown in the table below. The acquisitions are expected to be completed in the first half of 2006.

Company	Country	Acquired; Percent Holding	Consideration	Description/Comments
Kent	Turkey	Share increase from 65% to 95%	Approximately £55 million	Turkey's leading sugar confectionery company
Dan Products	Botswana	100%	£33 million	Sells chewing gum in South Africa under the Stimorol and Dirol brands

Description of Business

Number of No.1 or No.2 Positions in the Top 50 Confectionery Markets by Geography

	Cadbury Schweppes	Nestlé	Kraft	Mars	Wrigley	Hershey
No.1 Position	16	6	5	2	5	1
No.2 Position	8	10	5	6	3	1
Total Confectionery	24	16	10	8	8	2

Source: Euromonitor 2004

Our confectionery turnover is generated from products spanning the full range of the market: chocolate, sugar and gum. The table below shows our leading market share in the global confectionery market and our shares in each of these three categories.

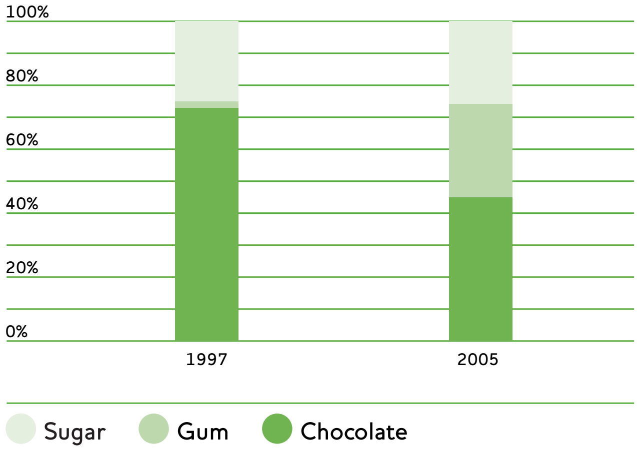
Market Share in the Global Confectionery Market (US dollar share)

	Global Confectionery Market	Chocolate	Sugar	Gum
Cadbury Schweppes	10.0%	7.8%	6.9%	26.0%
Mars	9.2%	15.2%	3.1%	0.2%
Nestlé	7.8%	12.3%	3.6%	–
Hershey	5.8%	8.4%	3.1%	1.7%
Wrigley	4.9%	–	0.3%	36.0%
Kraft	4.9%	7.3%	2.7%	0.5%

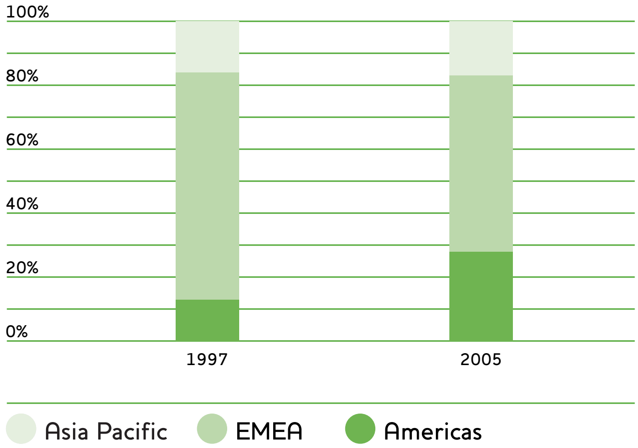
Source: Euromonitor 2004

The table below shows the change in percentage contributions to our confectionery turnover on both a product and a geographic basis between 1997 and 2005. In 1997, around 70% of our confectionery turnover was generated by chocolate; in 2005 this figure was around 45%, with 29% generated by gum, and 26% by other sugar products. In 1997, nearly 90% of our confectionery turnover was generated in EMEA and Asia Pacific, particularly in the UK and Australia. In 2005 EMEA accounted for just over half and the Americas just over a quarter, as compared with just over 10% in 1997.

Sales Contribution by Product



Sales Contribution by Geography



We have 67 (2004: 68) manufacturing facilities. Further details of these facilities are provided on page 18. Our main confectionery brands are Cadbury, Bassett's, Dentyne, Halls, Hollywood, Stimorol, Dirol, Trebor, Trident and Wedel.

Our brands have regional or local strengths, with the exception of Halls, which is sold in every one of our regions. Details of our main confectionery brands by region can be found on pages 12 to 13.

Beverages

Our beverages strategy is to focus on strong regional beverages businesses. The business is concentrated in two regions: the Americas and Australia.

In 1999, we sold our beverages businesses in around 160 countries to focus on those regions where we had or could build a sustained competitive advantage. The sale of our Continental European businesses was prevented by competition authorities, so we resolved instead to retain and build them through the acquisitions of La Casera, Orangina and Apollinaris & Schweppes.

In 2005, we concluded that growth and returns could be better increased through continued focus and investment in our advantaged global confectionery business and American and Australian regional beverages operations rather than by further investment in Europe Beverages. Therefore, we decided it would be in the best interests of our shareowners to sell the Europe Beverages business. The sale for €1.85 billion was completed on 2 February 2006.

In the Americas we operate a geographically cohesive business in the US, Mexico and Canada, entirely within the North America Free Trade Agreement (NAFTA) region, which generates high returns and cash flow. We have increased the scale of our operations and expanded our brand portfolio, particularly in the non-carbonated sector of the beverages market, through the acquisition of Snapple in the US (2000), the Orangina brand globally (2001), and Squirt in Mexico (2002). Following the sale of Europe Beverages, we sell the Orangina brand under licence in the US and licence our US non-carbonated brands in Europe.

In Australia, the acquisition of the Pepsi Lion Nathan joint venture significantly strengthened our number two position in the Australian soft drinks market, both increasing our manufacturing scale and broadening our brand portfolio.

Main Beverages Acquisitions and Disposals 2000 – 2006

Date	Company	Country	Acquired/Disposed; Percent Holding	Consideration	Description/Comments
Oct-00	Pepsi Lion Nathan	Australia	Acquired 100%	Not disclosed	Acquired the bottling and franchise rights to Pepsi's brands in Australia
Oct-00	Snapple	US	Acquired 100%	£1.2 billion	Leading US premium non-carbonated beverages business. Main brands were Snapple, RC Cola and Mistic
Jul-01	La Casera	Spain	Acquired 100%	£65 million	Spain's third largest soft drinks producer
Oct-01	Orangina	France	Acquired 100%	£445 million	Soft drink brands in Continental Europe, North America and Australia
Feb-02	Squirt	Mexico	Acquired 100%	Not disclosed	Acquisition of the Squirt brand in Mexico. We already owned the Squirt brand in the US
Nov-02	Apollinaris & Schweppes	Germany	Share increased from 28% to 100%	£115 million	Buy-out of the remaining 72% interest in our German associate
Feb-06	Europe Beverages	France, Spain and Germany	Disposed 100%	€1.85 billion (£1.26 billion)	Sale of our remaining Europe Beverages businesses

In the Americas, the combination of our three North American businesses – Dr Pepper/Seven Up, Mott's and Snapple – into a single cohesive unit is enabling us to better leverage our powerful soft drinks brand portfolio, both flavoured carbonated (including Dr Pepper, 7 UP, Sunkist and A&W) and non-carbonated (including Snapple and Mott's). In 2005 we grew our share of the US carbonated soft drinks market, the world's largest, by 40 basis points to 17%. Together, our US beverages and confectionery businesses make us the 10th largest food supplier to the US grocery trade. Similarly in Australia, our combined confectionery and full system beverages businesses make us the fourth largest supplier of food products to the grocery trade.

Details of our main beverage brands by region can be found on pages 11 to 13.

Goals and Priorities

2005 Goals and Priorities

2004–7 Goals	2005 Priorities
1 Deliver superior shareowner performance	1 Deliver annual contract 2 Execute Fuel for Growth and focus on Free Cash Flow
2 Profitably and significantly increase global confectionery share	3 Invest, innovate and execute 4 Execute Smart Variety
3 Profitably secure and grow regional beverages share	5 Invest, innovate and execute 6 Strengthen non carbonated drinks and route to market
4 Ensure our capabilities are best in class	7 Roll-out Building Commercial Capabilities 8 Refine Supply Chain disciplines
5 Reinforce reputation with employees and society	9 Motivate, develop and reward our people 10 Continue high Corporate and Social Responsibility standards

In October 2003, we set our strategic goals for the 2004 – 2007 period. Each goal has two priorities. While our goals are unlikely to change from year to year, the priorities may, depending on prevailing business needs and the market environment. The goals provide a small number of clear and achievable objectives against which our senior managers report and are incentivised.

We believe we can consistently deliver superior shareowner performance by profitably growing our global confectionery and regional beverages businesses; by ensuring that our team and its capabilities are best in class; and by ensuring that we have strong relationships with our employees and the communities in which we do business.

Goal one

Our first goal and overarching objective is to deliver superior shareowner returns. Performance in respect of this goal is measured by comparing our Total Shareowner Return (TSR) against a set of 28 international fast moving consumer goods (FMCG) peers. In 2005 our TSR of 23% was in the top quartile of these peers.

We believe there is a direct link over time between superior business performance and superior shareowner returns. We measure our annual performance based on three key business performance indicators – sales, margins and cash flow – within set goal ranges.

- Revenue growth in our base business of between 3% and 5% per annum at constant exchange rates
- Underlying operating margin growth of between 50 and 75 basis points per annum at constant exchange rates
- Free cash flow totalling £1.5 billion over the four year period to 2007 at constant exchange rates

The Fuel for Growth programme was designed to reduce our direct and indirect cost base by £400 million per annum by 2007. Following the sale of Europe Beverages, which accounted for approximately 10% of the Group, the targeted savings under the Fuel for Growth initiative have been reduced to £360 million. So far, we have realised cost savings of £180 million. Delivery of the remainder will provide further support for the achievement of our margin growth goal in 2006 and 2007.

In 2005, we invested an additional £75 million in growth and capability related initiatives, including innovation, information technology, science and technology, commercial and sales force capabilities and the understanding of our customers.

In order to achieve our free cash flow goal of £1.5 billion between 2004 and 2007, we are focused on both driving profitable growth and optimising allocation of our capital. Our free cash flow in 2005 was £404 million (2004: £229 million). The free cash flow goal is measured at constant 2003 exchange rates. On this basis, the cumulative free cash flow generated since 2004 is £715 million and was £450 million in 2005. In 2006, we will continue to implement programmes to reduce working capital and increase capital efficiency, specifically targeting improvements in receivables and inventory. As part of this goal, we are also targeting proceeds of approximately £100 million from the sale of surplus properties by 2007.

We are also seeking opportunities to realise cash flow through the sale of smaller non-core businesses. These disposals, which are not included in our free cash flow target, are expected to raise £250 – £300 million by the end of 2007.

We introduced Managing for Value (MFV) to the Group in 1997. Value Based Management remains fundamental to our strategic and operational processes. It enables us to identify the generators of economic profit, and thus sustainable long-term value growth, within our business; develop and implement strategies that create and sustain the most value; and monitor performance against forecasts. Economic profit is achieved when post-tax operating profit exceeds the cost of the capital used. Economic profit is widely used in Cadbury Schweppes in, for example, assessing products, customers, marketing and asset spend, and setting targets and incentive programmes for our businesses.

In support of delivering superior performance for our shareowners, a high proportion of senior managers' compensation is based on MFV principles, with performance targets on incentive plans set to align their interests with those of shareowners. We give details of these performance targets on pages 43 to 49. Executive Directors and senior managers are also required to meet a share ownership requirement; details of this requirement are given on page 44.

Goal two

The second goal is to profitably and significantly increase our global confectionery share. We aim to continue to grow our share of the global confectionery market to widen the gap between us and our competitors.

Our Adams business is now fully integrated and continues to exceed our expectations. The top line is ahead of the acquisition case, margins are significantly improved and we exceeded our cost of capital in 2005, one year ahead of schedule.

The increase in our share of the global confectionery market from 9.6% in 2003 to 10.0% in 2004, giving us market share leadership (Source: Euromonitor 2004), was driven by the combination of our Smart Variety initiative, and higher investment and an increased focus on innovation and market place execution.

The Smart Variety growth initiative recognises that our business model is based on our diverse range of strong local and regional brands. Smart Variety is a commercial discipline which provides us with the decision rules and processes to leverage the combination of our broad product range, geographic reach, routes to market and manufacturing capabilities.

In 2005, we continued to innovate and share our products and technologies across regions, under our Smart Variety growth initiative. An example of this approach was our roll-out of the Cadbury Dairy Milk master branding strategy in Canada and South Africa, following successful launches in Australia, the UK and Ireland in previous years. A key innovation in 2005, and a further example of Smart Variety, was centre-filled pellet gum, which we launched in multiple markets in Europe and in North America. Further details of the performance of our confectionery businesses are set out on pages 68 to 70.

Goal three

Our third goal is to profitably secure and grow our regional beverages share across our businesses in the Americas and Australia. Over the last two years, our primary focus has been on strengthening these businesses through reorganising operating and management structures and concentrating resources on a selection of advantaged brands.

Our beverages business in North America now operates under a single, integrated management structure enabling it to generate significant cost savings and to leverage its scale with customers and suppliers.

In 2005 we shifted our focus in beverages toward increasing innovation and improving market-place execution. Specifically in the US, our key priorities were improving the performance of our non-carbonated brands and strengthening our route to market.

In 2005 we continued to build our share in the US carbonated soft drinks market, driven by the launch of innovative products, such as Dr Pepper Cherry Vanilla, and continued growth in our diet range. We improved the performance of non-carbonated soft drinks through increased investment and enhanced innovation in our four key brands of Snapple, Mott's, Hawaiian Punch and Clamato. We set out details of our Americas Beverages business and its financial performance on page 68 and of our Australian beverage business on page 69.

In May 2005 a new CEO was appointed at Dr Pepper/Seven Up Bottling Group, our largest bottling partner in the US. Together, we made progress on key initiatives such as joint buying and further consolidation of the independent bottler network.

In Australia, we have also obtained significant operational and commercial benefits by integrating the beverages and confectionery businesses making us the fourth largest supplier to the grocery trade.

Goal four

Our fourth goal is to ensure our capabilities are best in class, by recruiting new and developing existing employees, and by developing world-class processes and systems. In particular, we have sought to build and improve our capabilities in innovation, consumer insights, sales and marketing, science & technology, sales and operations planning (S&OP) and systems. Since 2003, we have recruited externally over 25% of our 160 most senior employees worldwide, many from other leading consumer products companies. Details of changes to the Board and Chief Executive's Committee are given on pages 9 and 10.

Product innovation is an important growth driver in the beverages and confectionery markets. We have set an internal ambition of generating 15% of sales from innovation by 2007 and have put in place processes and capabilities to support its achievement. We have made appointments in senior innovation roles at Group and regional level. We have also created global platforms, and a stage and gate process and a knowledge management system to support innovation. Our product innovation is managed and driven through our central and regional Commercial Strategy and Science & Technology functions. We provide further details on both these functions on pages 14 and 15.

Our innovation to sales ratio has increased from 6% in 2003 to 9% in 2004 and 10% in 2005. We divide our innovation into three different types: brand renovation – changes to existing brands; breakthrough innovation – changes bringing a greater differentiation from existing products, and breakout innovation – creation of an entirely new category of product. We include brand renovation in our definition for two years from the date of launch, and breakthrough or breakout innovation for four years.

In 2004, we undertook a major global consumer segmentation study and in 2005 we launched the Building Commercial Capabilities (BCC) development programme. Together, these give employees a common method of analysing consumer demand, and common tools and processes for developing commercial programmes. We spent approximately £7 million on BCC in 2005. In Supply Chain, we launched initiatives to improve production planning, quality control and safety and environmental standards.

We give further information on the segmentation study and BCC programme under the description of the Global Commercial function on page 14, and we set out supply chain initiatives on page 14 under the description of that function.

Goal five

Our fifth and final goal in 2005 was to reinforce our reputation with employees and society. We take the engagement and commitment of our employees seriously and are strongly committed to the stewardship of the communities where we operate.

We believe that the strong roots of the Cadbury heritage are a competitive advantage. Our priorities are to motivate, reward and develop our employees and maintain our high Corporate and Social Responsibility standards. Details of our policies, and developments in 2005, are set out on pages 21 to 23. We believe our interaction with employees, communities and the environment is critical to business success.

We are committed to achieving high standards of business integrity, ethics and professionalism across all our activities. We support the highest standards of corporate governance, and have a financial Code of Ethics that applies to our Chief Executive Officer and senior financial officers. All executive members of our Board, CEC and Global Leadership Team sign the Cadbury Schweppes Business Principles. Both the Code and Business Principles are available on the Group's website www.cadburyschweppes.com.

For the full corporate governance report and an outline of the Board of Directors' remit, composition and activities see pages 27 to 39.

2006 Goals and Priorities

2004–7 Goals	2006 Priorities
1 Deliver superior shareowner performance	1 Deliver annual contract 2 Extract Fuel for Growth and focus on Free Cash Flow
2 Profitably and significantly increase global confectionery share	3 Invest, innovate and execute 4 Leverage Smart Variety
3 Profitably secure and grow regional beverages share	5 Invest, innovate and execute 6 Strengthen non carbonated drinks and route to market
4 Ensure our capabilities are best in class	7 Embed core processes to improve business planning 8 Focus on Supply Chain and transform IT
5 Nurture the trust of our colleagues and the communities in which we do business	9 Deepen talent pool and increase diversity and inclusiveness 10 Continue high Corporate and Social Responsibility standards through our actions and our brands

In 2006, our goals remain largely unchanged. We have refined our fifth goal, building on our existing strong reputation with our employees and society, to focus on creating a cohesive and talented workforce, through encouraging inclusiveness and increasing the diversity of our people. We will continue to work to our high standards of corporate and social responsibility both in the way we conduct our business, and in our products and the way we sell them.

We have also altered selected priorities. Our overarching objective of superior shareowner performance is supported by continued execution of these goals and priorities.

Our Fuel for Growth and Smart Variety programmes are now embedded within our processes, and our priority in 2006 is to deliver the maximum benefits for our shareowners by extracting Fuel for Growth benefits and leveraging Smart Variety.

Having rolled out our Building Commercial Capabilities programme to much of the Group in 2005, in 2006 we will concentrate on embedding this and other core processes in the Group, and on improving our business planning in areas such as Sales and Operations Planning and Logistics and Customer Operations. Achieving this will require further changes to our supply chain and IT capabilities, which will be our eighth priority for 2006.

We will publish our third corporate and social responsibility report in 2006. While maintaining our focus on this area we have altered our priorities to ensure that CSR is embedded both in our products and brands, and also in the way in which we interact with the communities in which we operate and do business.

Organisation structure and management

Regions and functions

We are organised into four business segments which we call regions, and six global functions, as depicted in the chart below. We sold the Europe Beverages region on 2 February 2006.

Each region is focused on commercial operations in its geographical and product area, and also maintains teams from each of the six functions. The four regions are: Americas Beverages; Americas Confectionery; Europe, Middle East and Africa; and Asia Pacific.

The functions are Global Supply Chain, Global Commercial, Science & Technology, Human Resources, Finance and Information Technology, and Legal. Since July 2005, responsibility for company secretarial matters has been separated from the legal function. Each function has a small central team based at Group Headquarters, and regional presences which are coordinated by the central team.

This structure enables us to focus on delivering our commercial agenda and top-line growth, and allows the functions to develop and drive global strategies and processes towards best in class performance, while remaining closely aligned to the regions' commercial interests.

A description of the regions begins on page 11 and of the functions on page 14.

Board of Directors and Chief Executive's Committee

The Board is responsible for our overall management and performance, and the approval of our long-term objectives and commercial strategy.

The Chief Executive's Committee (CEC), which includes the leader of each region and function, reports to the Board and is responsible for the day-to-day management of our operations and the implementation of strategy. This team is responsible to the Board for driving high level performance of our growth, efficiency and capability programmes.

The CEC develops global commercial strategy, and addresses supply chain and major operating issues arising in the normal course of business. This includes reviewing the regions' and functions' performance contracts; and determining necessary action relating to financial policy, targets, results and forecasts. It approves some capital and development expenditures according to authorities delegated by the Board; reports to the Board on the Group's sources and uses of funds, cash position and capital structure; and reviews the structure and policy of Group borrowings. The CEC evaluates foreign exchange, interest rate and other risk management policies, and submits an annual risk management report to the Board. It also reviews proposed acquisitions and disposals, joint ventures and partnerships before submission to the Board, and reviews and approves legal and human resources matters.

Functions

Global Supply Chain
- Matthew Litobarski (to 30 Sept 2005)
- Steve Driver (from 31 Oct 2005)

Global Commercial
- Nick Fell

Science & Technology
- David Macnair

Human Resources
- Bob Stack

Finance and Information Technology
- Ken Hanna

Legal
- Mike Clark (to 30 June 2005)
- Henry Udow (from 1 July 2005)

- John Sunderland – Chairman
- Todd Stitzer – Chief Executive Officer
- Ken Hanna – Chief Financial Officer
- Bob Stack – Chief Human Resources Officer

Group Secretary
- Mike Clark (to 30 June 2005)
- Hester Blanks (from 1 July 2005)

Regions

Americas Beverages
- Gil Cassagne

Americas Confectionery
- Matt Shattock (to 28 Feb 2005)
- Jim Chambers (from 12 Sep 2005)

Europe, Middle East and Africa
- Andy Cosslett (to 31 Jan 2005)
- Matt Shattock (from 1 March 2005)

Asia Pacific
- Rajiv Wahi

Changes to the composition of the Board and CEC in 2005
In 2005 there were a number of changes to the Board and senior management of the Group.

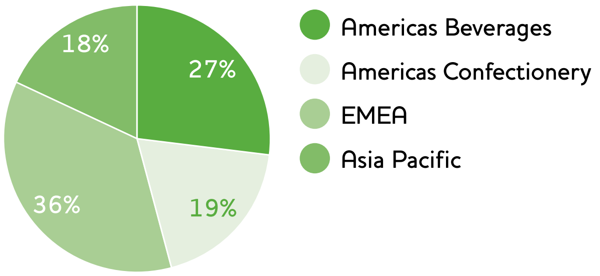
Changes to senior management in 2005 were as follows:

- John Sunderland became Non-Executive Chairman on 25 August, having previously been Executive Chairman;
- Matt Shattock moved from President, Americas Confectionery, to President, Europe, Middle East and Africa;
- Jim Chambers joined us as President, Americas Confectionery. Jim was previously President, Rémy Amérique, prior to which he was CEO of Paxonix, President and CEO of Netgrocer.com, Group President US business and e-commerce at IRI, and held senior roles at Nabisco;
- Steve Driver was appointed President, Global Supply Chain following Matthew Litobarski's retirement. Steve joined us from ICI, where he led the North American Supply Chain function, prior to which he held roles with Unilever, Bestfoods, CPC, Smithkline Beecham and Nabisco;
- Following Mike Clark's retirement as Chief Legal Officer and Group Secretary, Henry (Hank) Udow was appointed Chief Legal Officer. Hank joined the Group in 1987, and was most recently Group M&A Director. Also on Mike Clark's retirement, Hester Blanks was appointed Group Secretary. Hester joined the Group in 1984 and was most recently Legal Director, (Group).

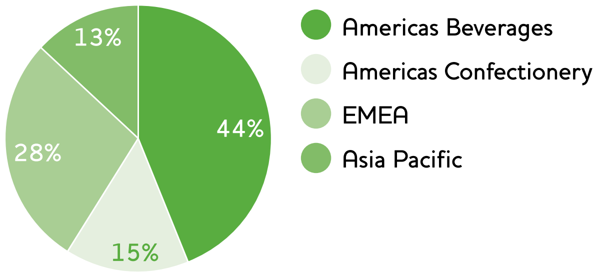
Regions

The following charts show the relative size of the Group's regions. Market share information, except where otherwise indicated is sourced from latest available information from IRI or Nielsen for 2005.

Revenue by Region



Underlying Profit from Operations(1)



(1)For an explanation of underlying profit from operations and a reconciliation to profit from operations see page 58. Excludes Central. In 2005, 60% of our revenue came from confectionery and 40% from beverages. On the same basis, the Americas regions accounted for 46% of revenue, EMEA 36% and Asia Pacific 18%. Developing markets accounted for 23% of revenue, with developed markets accounting for the remainder.

Americas Beverages

	2005	% of Group Total		2005	% of Group Total
Revenue	£1,781m	27%	No of employees	6,605	12%
Profit from operations	£537m	46%	Operating Assets	£494m	24%
Underlying Profit from operations(1)	£524m	44%	No of factories	11	
Operating Margin	30.1%				
Underlying Operating Margin	29.4%				

Main markets: US, Canada, Mexico

Main brands: Dr Pepper, Snapple, Mott's, Hawaiian Punch, Peñafiel, Clamato, 7 UP, Yoo-Hoo, A&W, Sunkist, Diet Rite, Canada Dry, Schweppes, Nantucket Nectars

(1)For an explanation of underlying profit from operations and a reconciliation to profit from operations see page 58. Excludes Central.

The Americas Beverages region comprises operations in the US, Canada and Mexico. The principal products of the business are carbonated and still soft drinks.

In carbonated soft drinks (CSDs), Americas Beverages participates mainly in the flavours (non-cola) segment, where we own the number one or number two brands in most categories in which we compete. Americas Beverages has a 17% share of the US CSD market, the world's largest. Its main CSD brands are Dr Pepper – the seventh largest US CSD brand, with a 7% share – and 7 UP. We own 7 UP in the United States and Puerto Rico only. Other important brands include Canada Dry, A&W and Sunkist, which is a licensed product. Diet drinks account for approximately 25% of CSD volume. In still drinks, Americas Beverages competes in ready to drink teas, juice and juice drinks. Our still beverage brands include Snapple, Hawaiian Punch, Mott's, Clamato and Yoo-Hoo.

In Mexico – the world's second largest CSD market – we are the third largest beverages company with 6% of the Mexican CSD market, and an 18% share of the non-cola market. Our main brands in Mexico are Peñafiel, Squirt, Crush and Canada Dry. Peñafiel is the leading brand in the mineral water sector, with a 36% market share. Squirt is the number two grapefruit CSD.

Our beverage products are distributed through a number of different routes to market. In North America, the CSD brands are primarily manufactured and distributed through third party bottling and canning operations. These source beverage concentrate from Americas Beverages, which operates as a licensor. Around half of our North American CSD volumes are distributed by companies in which our competitors have a significant stake. The remainder is distributed through independent bottlers including Dr Pepper/Seven Up Bottling Group (DPSUBG), in which we have a 45% equity interest. DPSUBG is the largest independent bottler in the United States, and distributes around 24% of our carbonated soft drink volumes. DPSUBG operates primarily in Texas, California, and other Western and Midwestern states of the United States. The processes and operations of the independently-owned bottlers and canners are monitored to ensure high product standards. We also provide marketing, technical and manufacturing support. The still beverage brands are manufactured and distributed by both Group-owned and independent companies.

In Mexico, we manufacture and sell our products either through third party bottlers, as with US carbonated soft drinks, or through company-owned bottling operations. Around 20% of our volume in Mexico is manufactured and distributed by third party bottlers. The balance, and the majority of our brands, are manufactured by group-owned bottling operations.

Americas Confectionery

	2005	% of Group Total		2005	% of Group Total
Revenue	£1,228m	19%	No of employees	14,175	26%
Profit from operations	£153m	13%	Operating Assets	£340m	17%
Underlying Profit from operations[(1)]	£172m	15%	No of factories	11	
Operating Margin	12.4%				
Underlying Operating Margin	14%				

Main markets:	US, Canada, Mexico, Brazil, Argentina, Colombia
Main brands:	Trident, Halls, Dentyne, Bubbas, Clorets, Chiclets, Cadbury, Swedish Fish, Sour Patch Kids, Beldent, Bazooka, Mantecol

[(1)]For an explanation of underlying profit from operations and a reconciliation to operating profit see page 58. Excludes Central.

Our business in this region was significantly expanded following the acquisition of Adams in March 2003. Over 75% of the Adams business was based in the Americas. Americas Confectionery operates businesses in all the region's major countries including the US, Canada, Mexico, Brazil, Argentina and Colombia. Almost 60% of sales are in the US and Canada, with the remainder in Mexico and Latin America.

In the US, the world's largest confectionery market, we have the second largest market share in gum at 24%, mainly through the Trident and Dentyne brands, and the leading share at 54% in cough/cold confectionery through Halls. We are also the largest confectionery company in Canada, the world's 12th largest confectionery market, with an overall 21% market share and leading market positions in gum, sugar and cough confectionery, and a top three position in chocolate. Five brands, Trident, Dentyne, Cadbury Dairy Milk, Caramilk and Mr. Big, account for nearly 60% of sales.

In Latin America, we have the leading overall confectionery market share at 17%, (Source: Euromonitor 2004) more than double that of our nearest competitor. We have a 64% share of the Latin American gum market, and leading market shares in gum in Mexico, Brazil, Venezuela, Argentina and Colombia. We also have the leading share of the fragmented sugar confectionery market at 8%, and a number one or number two position in individual markets (Source: Euromonitor 2004). We have a broad-reaching distribution infrastructure in Latin America which enables us to supply a highly fragmented customer base of small shops and kiosks. In Mexico, we have a share of over 65% of the gum market and 8% of the sugar market. Other brands sold in the Americas include Clorets, Swedish Fish, Sour Patch Kids, Beldent, Bazooka and Mantecol.

We have manufacturing facilities in Canada, the US, Mexico, Argentina, Brazil and Colombia.

Europe, Middle East and Africa (EMEA)

	2005	% of Group Total		2005	% of Group Total
Revenue	£2,333m	36%	No of employees	21,666	39%
Profit from operations	£334m	29%	Operating Assets	£846m	41%
Underlying Profit from operations[(1)]	£336m	28%	No of factories	41	
Operating Margin	14.3%				
Underlying Operating Margin	14.4%				

Main markets:	UK, France, Poland, Spain, Russia, Turkey, Greece, Egypt, South Africa, Nigeria, Scandinavia
Main brands:	Cadbury, Hollywood, Halls, Wedel, Bassett's, Trident, Dirol, Stimorol, Kent, Poulain, Trebor, Maynards, Green & Black's, Bim Bim, Chiclets

[(1)]For an explanation of underlying profit from operations and a reconciliation to operating profit see page 58. Excludes Central.

The EMEA region includes all of our confectionery interests in the European (including Russian), African and Middle Eastern confectionery markets.

Cadbury Trebor Bassett (CTB) in the UK is our largest confectionery business in EMEA. We have a leading 30% share in the UK, the world's second largest confectionery market. CTB's products are chocolate and sugar confectionery, under brand names including Cadbury, Trebor, Bassett, Maynards, and Halls. In 2005 we acquired the fast-growing Green & Black's brand of luxury organic chocolate.

In Continental Europe, where our main markets are France, Iberia and Poland, we primarily sell gum and sugar confectionery. France is our largest operating unit and we have the leading position in the French confectionery market – the world's fifth largest – with a 17% share. We have a 55% share of the French gum market, principally under the Hollywood brand. We also have 19% of the sugar confectionery market (main brands: La Pie Qui Chante and Carambar), and sell chocolate, mainly under the Poulain brand. We also sell gum under the Trident brand in Spain, Portugal and Greece and Stimorol and V6 in Denmark, Belgium and Sweden. Our sugar confectionery brands include Halls in Spain, Greece and Italy. We sell chocolate under the Wedel and Cadbury brands in Poland, where we have a 18% market share, and also operate in the Netherlands and Switzerland.

Outside Continental Europe, our main markets in the EMEA region are Russia, Turkey, and markets in Africa and the Middle East. In Russia, we have a 28% share of the gum market through the Dirol brand, and we also sell medicated sugar confectionery under the Halls brand and chocolate under the Cadbury brand. We have the leading share of Turkey's sugar confectionery market at 62%, with brands including Kent, Missbon, Olips and Jelibon, and a top three position in gum under the brands Relax, Toybox and Nazar (14% share). We also sell chocolate under the Grand Chocolates and Bonibon brands.

We are the leading confectionery company in Africa and the Middle East. Our main confectionery operations are in Egypt, South Africa, and Nigeria where we have number one market shares. On 20 February 2006, we announced that we had increased our shareholding in Cadbury Nigeria to 50.02%.

For the purposes of these accounts Cadbury Nigeria is reported as an associate. Our Nigerian business sells sugar confectionery, gum and food beverages with market shares of 46%, 14% and 33% respectively. Its lead brands include Tom Tom, the biggest selling candy in Africa, Bournvita, and Bubba bubble gum. We also operate in Morocco, Lebanon, United Arab Emirates, Ghana and Kenya. In Egypt, we sell products under the Cadbury, Bim Bim and Chiclets brand names and have a 44% market share. In South Africa we sell confectionery products under the Cadbury and Halls brand names with a 44% and 19% market share respectively.

On 8 February 2006, we announced that we had agreed to buy Dan Products, which sells chewing gum business in South Africa, for £33 million.

Asia Pacific

	2005	% of Group Total		2005	% of Group Total
Revenue	£1,157m	18%	No of employees	12,624	23%
Profit from operations	£143m	12%	Operating Assets	£379m	18%
Underlying Profit from operations[1]	£157m	13%	No of factories	25	
Operating Margin	12.3%				
Underlying Operating Margin	13.5%				

Main markets:	Australia, New Zealand, India, Japan, Thailand, China
Main confectionery brands:	Cadbury, Halls, Trident, Clorets, Bournvita
Main beverage and food brands:	Schweppes, Cottee's (Australia only)

[1]For an explanation of underlying profit from operations and a reconciliation to operating profit see page 58. Excludes Central.

This region comprises our confectionery operations principally in Australia, New Zealand, India, Japan, Malaysia, Indonesia, Thailand and China, and Schweppes Cottee's, an Australian beverages and foods business.

Australia and New Zealand are our largest markets in the region. Australia is the 11th largest confectionery market in the world. We are the leading company in the Australian confectionery market, with the number one position in chocolate with a 55% market share, and a strong presence in sugar confectionery. Our main chocolate brand in Australia is Cadbury. Our Australian beverages business's products are sold under the Schweppes, Cottee's, Solo, Spring Valley, Sunkist and Wave brand names. Schweppes Cottee's also has a license to manufacture, sell and distribute Pepsi, Red Bull, 7 UP, Mountain Dew and Gatorade. In Australia, we both manufacture, distribute and market our own products and manufacture concentrate and bottle product for other manufacturers. In New Zealand, our brands include Cadbury and Moro, and we have a number one position in the confectionery market with a 43% share.

Our other significant markets in this region include India, Japan and Thailand. Our Indian business has a leading presence in chocolate with a 71% market share, and also sells sugar confectionery. Our Japanese business sells mainly gum under the Recaldent and Clorets brands, and has a number two market position with a 17% market share. We also have leading market shares in Thailand in gum and sugar confectionery at 59% and 32% respectively, and top three positions in chocolate, sugar confectionery and gum in China.

The Malaysian business is a prime example of Smart Variety, with the successful introduction of chocolate products from Australia and New Zealand helping to take us to a leadership position in chocolate, with a market share of 24%. In gum, we have introduced Dentyne from Thailand, adding 9% to our share of the gum market during 2005.

We have manufacturing facilities in Australia, New Zealand, India, Japan, Thailand, China and Singapore.

Functions

Global Supply Chain

The role of Global Supply Chain (GSC) is to ensure the supply of product to satisfy our customers' expectations whether manufactured by us or by a third party. GSC's role encompasses the supply of raw and packaging materials, and planning, manufacturing, distribution and customer services. GSC is responsible for managing both the fixed assets of over 100 manufacturing facilities and over 250 warehouses, and working capital.

GSC's structure enables shared accountability at the regional level for results and strategy execution day-to-day, while ensuring that cross-regional and step-change supply opportunities are pursued at the functional level. The function is led centrally by the President, GSC, and regionally by the four regional heads of supply chain. Key functional activities are managed centrally and operate on a global basis. They are focused on Strategy and Process Improvement; Best Practice Implementation; Quality, Environment, Health and Safety management (QEHS); Global Procurement; and Ethical Sourcing.

In 2005, as part of the Fuel for Growth programme, GSC's cost saving agenda included procurement savings in raw materials, packaging and non-production spend, as well as factory efficiency and reconfiguration.

Other efficiency initiatives in 2005 included implementation of a five step Sales and Operations Planning (S&OP) process, and the formation of a global Logistics and Customer Operations (L&CO) leadership team. S&OP, which has now been implemented in 90% of our businesses, aims to reduce service level interruptions and inventory levels, and enhance the efficiency of product launches. The L&CO leadership team will identify opportunities to improve our distribution and warehouse costs and processes.

In 2005, GSC implemented a number of processes to ensure that we have a standardised approach to quality. Over 90% of our sites are now using Hazard Analysis and Critical Control Point (HACCP) processes to identify and address key areas of risk in relation to quality. Also in 2005, the Quality Management System began tracking the implementation of the Global Cadbury Schweppes Quality Standards.

A Group-wide approach to supplier quality was implemented through a standardised Supplier Quality Management Process and a global database holding supplier details. Our ethical sourcing initiatives aim to help protect, sustain and enhance our brand reputation. We have so far had discussions on this topic with over 90% of our most important suppliers. Our Ethical Sourcing Standards (ESS) have been incorporated as an integral element into all purchase orders, contracts and pre-qualification documents, and over 200 employees in procurement have received ESS training.

GSC continued to progress environmental initiatives in 2005, supporting the achievement of a 4% improvement in environmental Key Performance Indicators or KPIs by 2008.

GSC continues to seek improvements to its health and safety performance: in 2005 it initiated Group-wide environmental, health and safety (EHS) standards, management systems and specific safety training programmes, and implemented a global EHS data collection system. In 2006, we will start to focus on Behavioural-Based Safety and Driver Safety programmes.

Global Commercial

The role of Global Commercial (GC) is to enable higher sales growth from the regions and business units than they could otherwise generate on a stand-alone basis. GC has a central and regional structure, with a central team managing teams drawn from all parts of the Group. Its activities focus on:

- creating a winning strategy for each category in which we participate
- creating global solutions for markets to win locally
- creating a pipeline of innovation
- coordinating the management of key international customers
- creating world-class commercial capabilities

In 2005, we completed our consumer segmentation study in 38 key markets. This study provides a common and aligned segmentation of markets based on over 80,000 consumer interviews as a foundation for superior insights into consumer behaviour.

Our Building Commercial Capabilities programme has been created on the foundation of the consumer segmentation programme. Over 1000 sales and marketing leaders were trained in 2005, and a further 1500 employees will be trained in 2006. The programme is designed to give us an integrated sales and marketing process, with a single commercial language and common tools and processes for developing commercial programmes.

The consumer segmentation programme and development of a consistent research methodology have also helped increase our success in developing winning ideas to populate our innovation pipeline. This, along with adoption of a proprietary software tool for project management and a common process for innovation decision-making and resource-allocation, has dramatically increased our innovation capability. In 2005, we continued to progress towards our overall innovation goal, delivering 10% revenue innovation, driven by the successful introduction of a number of new differentiated products. These included in Americas Beverages, Dr Pepper Cherry Vanilla, 7 UP Plus and Mott's Plus; in Americas Confectionery, Trident Splash, Trident Fusion, Dentyne Soft Chew and innovations in the Halls sugar confectionery range, such as Halls Max; and in the EMEA region, Cadbury Snaps and Trident Splash. We have a strong innovation pipeline for 2006.

GC has also identified certain key international customers whose commercial agenda can be supported by an international approach and who can help drive our growth agenda. A Global Sales Team and an International Customer Leadership Team have established value added relationships with these customers.

Science and Technology

Science and Technology (S&T) leads our technical innovation programme. S&T sets and communicates our global technical priorities, establishes and co-ordinates our science agenda, and facilitates global knowledge management and best-practice transfer. It prioritises (with the regional teams) and funds technology developments which underpin our innovation agenda, including longer-term globally-applicable development programmes. It co-ordinates nutrition initiatives as a key element of our food policy. Together with Group Legal, it also creates a strategy for our intellectual property assets.

The function is led by a Chief Science and Technology Officer, supported by Science and Technology heads in each region and heads of the Global Science Centre, of Scientific Affairs, and of Process Technology. The S&T teams in each of our business regions have primary responsibility for developing and executing the innovation programmes. This includes prioritising and resourcing all regionally-driven product packaging and process development activities.

We use our own S&T facilities as well as those of suppliers. Our major Science and Technology facilities are at Reading, UK; Hanover Park, New Jersey, USA; and Trumbull, Connecticut, USA. The Reading facility provides science and technology support to the Group both globally and to the EMEA region and also supplies third parties as an External Science Business. Hanover Park serves Americas Confectionery. Trumbull serves the Americas Beverages region. We also have several smaller facilities around the world which support local business units, such as those at Bournville, UK; in South Africa; in Paris, France; in Melbourne, Australia; and in India.

We upgraded our S&T assets in 2005 with a new 120,000 square foot facility including pilot plant capabilities, completed at Hanover, New Jersey in November 2005 at a cost of $40 million. We also began building a new facility in Singapore for the Asia Pacific region, to focus on chewing gum and other confectionery, and made improvements at existing sites such as Trumbull and Reading.

In 2005, we strengthened S&T's global agenda by establishing a Global Science Centre at Reading and a Centre of Excellence for Global Gum Technology at Hanover Park. Our Global Science Centre's research team agenda is organised around three broad technology platforms: ingredients and taste; process and product forms; and nutritional science. The role of the Global Gum Technology centre is to provide technical leadership and support for the gum business globally. In addition, we signed a multi-year technical collaboration agreement with Senomyx to develop unique and proprietary flavour platforms for gum globally.

We made a number of key appointments to strengthen our global and regional capabilities in 2005, including a Managing Director and a Senior Research Director at the Reading facility, a Director of the EMEA region, a Global Process Technology Director and a People Capability Director. Overall headcount was over 600 at the end of 2005.

In 2005 we developed and approved Global Food Position Papers which are now being cascaded down the organisation. We developed, agreed and distributed global labelling standards across the Group, and implemented them in all major markets. We formed an External Nutrition Advisory Board in the US which is expected to operate globally from the second quarter of 2006.

We began a review of our intellectual property assets in 2005. Our rate of new filings also increased with the development of our innovation agenda with over 30 filings relating to gum and sugar confectionery alone in 2005.

Human Resources

The role of Human Resources (HR) is to improve our performance by enhancing the effectiveness of our day-to-day working practices, the capability of our people and the quality of their output. It is also responsible for ensuring that the working environment at Cadbury Schweppes reflects our core purpose and values, and enhances our culture. HR supports the business in delivering its goals by putting in place the right people for the right job; by helping develop and support the most effective organisational strategies and structures; and by attracting, retaining and developing employees and rewarding the right behaviours and outcomes.

The HR function is organised to ensure delivery of our people strategy. The HR leadership team combines regional HR generalist business partners and central worldwide functional experts. The team leads the development of best practice, the coordination and ownership of global processes and the strategy for service delivery. In the central team are heads of specific areas including remuneration and benefits, organisational effectiveness, resourcing and talent development. The regional HR directors are responsible for employee and organisational strategies for their region, and the management of resources to deliver maximum benefit. All the HR processes are supported by a set of minimum standards which are binding on all regions and business units.

Corporate Communication and External Affairs also report to the Chief Human Resources Officer, and are therefore within the HR organisation. The purpose of these two departments is to protect and promote our reputation for being values-led, consumer-informed and commercially astute. Organised on the same principle of regional generalist leaders and central specialist experts, the departments have global accountability for internal communication and change management communication; driving the CSR strategy within the business; public relations (including corporate, financial and brand public relations); issue and incident management and communication;

our corporate websites; and UK, European Union and US public affairs.

Finance

The role of Finance is focused on a strong business partnership with the commercial operators of the Group, while maintaining a robust financial control environment. The function sets low cost, IT-enabled common internal processes and standards for financial reporting and control, and ensures high quality external reporting which complies with all applicable laws and regulations. It is responsible for setting our annual contracts (or budgets), for developing our longer-term strategy and strategy platforms and for managing acquisitions and disposals. It seeks to act as a business partner and commercial adviser to the regions and other functions in achieving our goals and priorities. It is also responsible for external financial and other regulatory reporting and for managing our communications and relationship with the investment community around the world.

The Finance function is led by the Chief Financial Officer. It comprises a central team, and units in each of the regions and business units. The central team comprises a number of specialist groups which manage their respective areas on a Group-wide basis, including financial control, financial planning & analysis, tax, treasury, strategy (including mergers & acquisitions), risk management, investor relations and IT.

Key recent priorities have included the implementation of new regulations and accounting standards, preparation for the implementation of additional Sarbanes Oxley requirements, major upgrades to our information systems, and the development of more rigorous capital allocation decision rules.

In 2004 and 2005, we continued to strengthen our finance processes, systems and reporting metrics. We installed major new information systems in many of our major business units including Dr Pepper/Seven Up, Cadbury Trebor Bassett and in our confectionery businesses throughout the Americas region. In addition, we embedded new working capital and budgeting performance indicators into our management reporting.

In mid-2004, we created a shared business service environment in Dallas (the regional head office of Americas Beverages) to provide back-office services for our beverages and confectionery operations across North America. In 2005, this improved the effectiveness of processes and reduced back-office costs.

We also remain focused on the use of capital within Cadbury Schweppes, ensuring the prioritisation of our capital resources as well as the freeing up of underperforming capital. This can be seen in our management of working capital in 2005 and our disposal of non-core businesses, brands and surplus properties.

Following the appointment of a new Chief Information Officer, we have significantly reorganised the IT function. IT is now a global organisation, and has been changed from a geographically-led to a functionally-led structure.

In 2006, Finance's emphasis will remain on its role in providing strong business partnership to drive the delivery of the Group's targets. This will be supported by a financial training programme designed to underpin our Building Commercial Capabilities programme. We will also continue to prepare for reporting on our compliance with Section 404 of the Sarbanes Oxley internal control requirements in early 2007.

Legal and Secretariat

Legal and Secretariat work with and support the regions and other functions by taking responsibility for a broad range of legal activities. These include corporate governance matters; compliance with US and UK securities regulation and legislation; intellectual property; mergers and acquisitions; litigation management; general contract work and incident management.

In each region, a team headed by a regional general counsel works as a proactive business partner to achieve our commercial objectives in a legal and ethical way. The general counsels report both to the regional managing director or president and to our Chief Legal Officer, who has a small central team to provide support on general corporate matters. These teams work closely with the businesses, structuring, drafting and negotiating contracts with suppliers and customers, and advising management on matters such as food law, competition law, health and safety, and environmental issues. In the event of litigation, our legal teams work both to bring it to a satisfactory conclusion and, with management, on compliance activities designed to minimise the risk of further legal actions being brought against us.

Since July 2005, responsibility for company secretarial matters has been separated from the legal function. We now have a dedicated Group Secretary who, together with a centralised Group Secretariat department, is responsible for ensuring that each of our companies complies with all relevant corporate governance legislation and regulation. The department also supports the Board and Committees of Cadbury Schweppes plc, manages the relationship with our share registrar and ADR depository, and ensures compliance with UK and US requirements related to the listing of the Company's shares on the London and New York Stock Exchanges.

The Intellectual Property department is part of the Legal and Secretariat function. As described above, it works with the Science & Technology function to manage our intellectual property portfolio, including defending our rights against threats or infringements.

We own a large number of registered trade marks, copyrights, patents, designs and domain names throughout the world. We also possess many licences, along with substantial know-how, trade secrets and technology relating to our products and the processes for their production, packaging and marketing, and the design and operation of processes and equipment used in our businesses. £3.2 billion has been included in the Group's balance sheet at 1 January 2006 to reflect the cost of intellectual property acquired since 1985. For further information on our policy regarding the amortisation of the cost of brands see Note 1 to the Financial Statements on page 97.

Senior management in the Legal and Secretariat function communicate on a regular basis to ensure a consistent and proactive approach to legal matters and to further enhance the support offered to the business. When necessary, external legal support and advice is provided by leading law firms. In 2005 key legal achievements included preparation for the disposal of the Europe Beverages business, responding to changes in UK corporate governance requirements, increasing protection of our patents and strengthening resources in developing markets in the Asia Pacific region, and in the Americas, handling the contractual and leasing arrangements for key new properties for Americas Confectionery, and working with the business to strengthen the route to market for Americas Beverages.

Description of Business

Production assets

	Confectionery	Beverages	Total
Americas Beverages	–	11	11
Americas Confectionery	11	–	11
EMEA	38	3	41
Asia Pacific	18	7	25
Sub Total	**67**	**21**	**88**
Europe Beverages	–	13	13
Total	**67**	**34**	**101**

Properties

As of 1 January 2006 the Group had a total of 101 manufacturing plants and bottling facilities, of which 41 were located in Europe, Middle East and Africa; 11 in Americas Confectionery; 11 in Americas Beverages; 25 in Asia Pacific; and 13 in Europe Beverages. Of these, 67 are engaged in the manufacture of confectionery products and 34 are engaged in the manufacture and bottling of beverage products. As indicated in the above table, 13 facilities owned at 1 January 2006 were subsequently sold with the Europe Beverages business.

The Company owns all the production facilities apart from nine which are leased: five in Europe, Middle East and Africa, two in Asia Pacific, one in Americas Confectionery and one in Americas Beverages.

All the facilities are considered to be in good condition, adequate for their purpose and suitably utilised according to the individual nature and requirements of the relevant operations. We have a continuing programme of improving and replacing property when appropriate, to meet the needs of the individual operations.

The table below details our material properties, representing those sites with the most significant unmitigated loss exposures. All are manufacturing facilities and are owned by the Group except where indicated. These properties have a capacity utilisation in the range of 33 – 100%.

Material properties

Location	Principal products	Area in '000 sq ft	Production capacity in '000 tonnes
Bournville, UK (part leasehold)	Chocolate Confectionery	1,766	236
Somerdale, UK	Chocolate Confectionery	933	106
Aspers, Pa., USA	Beverages	620	737*
Ringwood, Australia	Chocolate Confectionery	610	39
Williamson, NY, USA	Beverages	578	492*
Rockford, Ill., USA	Gum Confectionery	536	61
Sheffield, UK	Sugar Confectionery	503	85
Coolock, Ireland	Chocolate Confectionery	488	99
Puebla, Mexico	Gum Confectionery	408	109
Chirk, UK	Confectionery Feedstocks	261	73
Bauru, Brazil	Sugar and Gum Confectionery	217	72
Overland, St. Louis, Miss., USA	Beverages, Concentrates	199	161*
**Carcagente, Spain	Beverages	130	19*
Marlbrook, UK	Confectionery Feedstocks	132	110
Rathmore, Ireland	Confectionery Feedstocks	106	55
Dublin, Ireland (leasehold)	Gumbase	80	23

* in millions of litres ** discontinued operation

Market environment

Competition

The confectionery and soft drinks industries are highly competitive: our brands compete with those of many other multi-national, national and regional companies and private label suppliers in various markets. We compete actively in terms of quality, taste and price of products and seek to develop and enhance brand recognition through the introduction of new products and packaging, and extensive advertising and promotional programmes.

We are the world's leading confectionery group by sales value (see table below). Chocolate confectionery is primarily a branded market. Four groups account for around 44% of the world market, each with market share built on regional strengths. Our 7.8% chocolate share is built on strong positions in the UK, Ireland, Australia, New Zealand and India. The sugar confectionery market is significantly more fragmented, with a greater presence of local and regional brands and private label products, but our 6.9% share makes us global market leader. Gum is also a branded market. It is more global in nature with brands and products more consistent across geographies. Two groups account for approximately 62% of the global total: our number two position is built on strong market shares in the Americas, parts of Continental Europe, Japan and Thailand.

2004 $ Share	Total	Chocolate	Sugar	Gum
Cadbury Schweppes	10.0%	7.8%	6.9%	26.0%
Mars	9.2%	15.2%	3.1%	0.2%
Nestlé	7.8%	12.3%	3.6%	–
Hershey	5.8%	8.4%	3.1%	1.7%
Kraft	4.9%	7.3%	2.7%	0.5%
Wrigley	4.9%	–	0.3%	36.0%

Source: Euromonitor 2004

The soft drinks industry includes a number of brand owners which act as licensors of branded products. Through Dr Pepper/Seven Up, we are the third largest carbonated soft drinks group in the US by sales volume. In Australia, we are the second largest beverages company and the fourth largest supplier of edible products to the grocery trade.

Industry trends

Both the confectionery and beverages markets in which we operate are growing. The main drivers are population growth and increased consumer wealth (particularly in developing markets), and product innovation, affecting both developed and developing markets.

According to Euromonitor the global confectionery market grew in value by 3.9% in 2004. It forecasts a similar rate of growth continuing for the foreseeable future. Within the overall confectionery market, chocolate grew at 4.1% in 2004, sugar by 2.4% and gum by 6.5%. In gum, consumers are switching from sugared to sugar-free products. 70% of our gum is sugar-free.

Overall, developing markets are growing faster than developed. Around 30% of our confectionery sales are generated in developing markets around the world. Our key developing markets are Mexico and Brazil in the Americas Confectionery region; Russia, Poland, Turkey, Egypt and South Africa in the EMEA region; and India and Thailand in the Asia Pacific region.

Value	% total market	2004 Vs 2003 (%)
Chocolate	53.8%	4.1%
Sugar (sweets/candied)	32.8%	2.4%
– Medicated	3.1%	2.1%
Gum	13.4%	6.5%
– Sugar	4.7%	1.9%
– Sugar free	8.7%	9.1%
Total confectionery	$121.6bn	3.9%

Source: Euromonitor 2004

Our main beverages market is the US. According to AC Nielsen, the US refreshment beverages market, which includes non-alcoholic carbonated and non-carbonated soft drinks, grew by 2% in volume and 6% in value in 2005. Carbonated soft drinks (CSDs) volumes have been flat or declining in recent years and fell by 3% in 2005. The decline has been attributed to a combination of above inflation pricing and consumers switching to non-carbonated products, primarily sports drinks and bottled water. Within the carbonated market, products sweetened with sugar (regular) declined 5% in 2005 while those sweetened with low calorie sweeteners (diet) grew slightly by 1%. We have six out of the top 10 non-cola diet CSDs in the US, including Diet Dr Pepper, Diet A&W, Diet Sunkist and Diet Rite. In 2005 diet CSDs accounted for 24% of our US CSD sales and grew by 4%. We do not participate in the sports drinks market in the US and have only a small presence in the bottled water market. The non-CSD categories in which we participate grew by 2% in volume in 2005.

Volumes	% total market	2005 Vs 2004 (%)
Carbonated soft drinks	53%	(3)%
– Regular	35%	(5)%
– Diet	18%	+1%
Non carbonated	45%	+9%
– Water	21%	+17%
– Isotonics/Energy	5%	+25%
– 100% Juice	9%	(2)%
– Juice Drinks	10%	(1)%
Other	2%	0%
Total	100%	+2%

Source: AC Nielsen (December 2005)

Many of our businesses are seasonal. Their seasonality is primarily influenced either by the weather, or by religious festivals and holidays. Within the Group, our businesses have different seasonal cycles throughout the year depending on their geographical location and the timing of festivals and holidays, which also may vary from year to year. For the Group as a whole, the second half of the year is typically the larger half.

Consumers and customers

Our products are primarily impulse products and are sold to the consumer through many different outlets, ranging from grocery stores to petrol station kiosks and fountain equipment at leisure, food and entertainment venues. In many markets, sales to the large multiple grocery trade accounts for less than

50% of sales. No single customer accounts for more than 10% of our revenue in any period presented.

We have a variety of programmes in place to ensure that consumer insights are built into our commercial strategy. These are described in more detail in the description of the Global Commercial function on page 14 of this document.

Raw materials and suppliers

We use a wide range of raw materials in manufacturing our products, the main ones being cocoa beans, sugar and other sweeteners (including polyols and artificial sweeteners such as aspartame), dairy products including milk, and fruit and nuts.

We buy our raw materials from about 40,000 suppliers around the world. No single supplier accounts for more than 10% of our raw material purchases. We developed a Human Rights and Ethical Trading (HRET) policy in 2000. Further details are provided on page 22.

We seek to minimise the impact of price fluctuations and ensure security of supply by entering into forward agreements and long-term contracts wherever available.

We import cocoa beans from West Africa and the Far East. West Africa accounts for over 60% of world production. We buy cocoa beans and cocoa butter from a range of suppliers, and try to minimise the effect of cocoa price movements and secure our future requirements by entering into forward and future contracts.

We purchase most of our sugar at prices essentially set by the European Union or maintained by various national governments through quotas and duties. Only a relatively small proportion is purchased at fluctuating world prices. We have not experienced difficulty in obtaining adequate supplies of sugar for our operations, and do not anticipate any future difficulties, given the many available sources.

Capabilities

Employees

The average employee* headcount**

	2005	2004	2003
Americas Beverages	6,605	6,774	7,020
Americas Confectionery	14,175	14,002	13,672
EMEA	21,660	21,549	22,611
Asia Pacific	12,624	12,436	12,480
Central	769	662	612
Sub Total	55,833	55,423	56,395
Europe Beverages	2,748	3,019	3,139
Total	58,581	58,442	59,534

The average employee headcount* in the UK in 2005 was 7,460, (2004: 7,468 2003: 7,409).

*For the purposes of this table, an employee is defined as a single individual (not a full time equivalent) in the business employed by us on a full time or part time basis or as a contractor to the business.

** In 2004 we commenced the Fuel for Growth headcount reduction programme, which targeted a 10% reduction over the period 2004–2007. In 2004 we changed our measurement of headcount to include contractors. We track the Fuel for Growth headcount reduction by the number of employed individuals who leave the business. In 2004 this stood at 1,100, and by 2005 at 1,900.

People strategy

We publish a people strategy in support of our business strategy and our annual five goals and 10 priorities. Our people strategy aims to link our organisational capabilities with the value we seek to create for our shareowners. It embraces four areas:

- getting the right people and putting in place the right organisation designs
- attracting, retaining and developing the right range of talent
- building stimulating and attractive workplaces and atmospheres
- rewarding the right performance outcomes and behaviours

Performance measurement and management

We measure the impact of our people strategy and the contribution employees make to our business through a two-part performance measurement system.

Individual performance is reviewed by an employee's line manager at the half year and year-end and measured against the attainment of clearly specified objectives. These objectives are set at the start of the year through a formal meeting with the line manager and are documented and signed. Managers are also reviewed against the behaviours we describe in our global leadership imperatives: Accountable, Adaptable, Aggressive, Forward Thinking, Motivating, Collaborative, Growing People and Living our Values. The individual is rated on performance and rewarded accordingly. We operate this performance management process globally. We also have a separate process to identify the potential of our managers to grow into new roles and this is conducted on an annual basis.

Our ability to gain the engagement and earn the commitment of our people is also measured. We use a climate survey tool which has proved a direct correlation between the performance of a business and the level of engagement of its employees (the discretionary effort an employee will give). The climate survey was undertaken with the most senior 10,000 managers globally in 2004 and then rolled out to all employees in 2005.

In 2005, we had an excellent 81% response rate and strong results. Nearly 90% of respondents around the world are proud to work for Cadbury Schweppes, know what is expected of them and constantly try to find ways of working better. The areas where we can improve are particularly related to enabling people to achieve more: for the business, themselves and for their communities. Our new Passion for People programme described below will help train our managers in the required skills, and help the business reinforce its distinctive workplace environment.

People capabilities

Learning and development

Our People Strategy sets out our commitment to ensuring all employees realise their full potential. In 2005, Group-wide learning and development activity focused on rolling out our Building Commercial Capabilities programme with 1000 managers taking part. The aim of the programme is to improve commercial decision-making, and marketing and sales expertise by defining a common Cadbury Schweppes way of marketing and selling. We have also developed a bespoke Cadbury Schweppes people management training programme called Passion for People for roll-out starting in 2006. The training seeks to teach newcomers our particular approach to managing people and refresh it with existing employees.

Employee communication and involvement

Employee communication and engagement continued to grow in 2005 with all areas of the business introducing enhanced communication structures and programmes. Through our subsidiaries, we have successfully entered into numerous collective bargaining agreements. Our management has no reason to believe that it would not be able to renegotiate any such agreements on satisfactory terms.

Employee share ownership

Share ownership among all our employees is actively encouraged. Employees in Australia, Canada, France, Germany, Ireland, Mexico, Netherlands, New Zealand, Portugal, Spain, and the UK and US have access to all-employee share plan arrangements which involve participation on favourable terms. Overall, around 40% of all eligible employees choose to participate, and invitations to participate are generally communicated each year.

Details of stock option plans available to employees are provided in Note 26 to the Financial Statements. The stock option schemes are being reviewed in 2006, but the principle of employee share ownership will continue.

Equal employment opportunities, diversity and inclusiveness

Diversity plays a crucial role in enabling us to stay relevant to customers and consumers. Our objective is to employ regardless of race, colour, ethnic or national origin, gender, sexual orientation, age, religion, marital status or disability. This objective is embedded in our Group-wide Equal Employment Opportunities and Diversity Policy. The Board and the Corporate and Social Responsibility (CSR) Committee monitors procedures and progress and we use training, workshops, induction, and in some cases Diversity Committees, to ensure that we share best practice and celebrate diversity. A newly formed global diversity and inclusiveness team, led by a member of the Chief Executive's Committee is steering the development of new policies and activities to increase awareness and focus on workforce diversity and workplace inclusiveness. We track and monitor gender diversity within management, the executive population and across the total workplace, and the range of nationalities at senior levels.

People with disabilities

We employ people with disabilities, though not all are formally registered as disabled in UK terms. If an employee becomes disabled, we aim wherever possible to offer an alternative job, with retraining if necessary. Training, career development and promotion opportunities for people with disabilities are consistent with our Group-wide Equal Employment Opportunities and Diversity Policy.

Health and well-being

We provide a number of health and well-being programmes for employees at business unit level, ranging from employee nutrition and health education through to whole-family health management schemes. The programmes include the provision of nutrition-focused on-site cafeterias: hygiene and health management education: subsidised activity facilities on or off-site: organised sporting and social activities: and a range of courses and counselling on matters such as work-life management, relaxation and stress management, managing weight change and reducing smoking or drinking. A large number of business units have medical facilities for basic health and safety requirements. In addition many offer employees medicals of one kind or another to give an indication of fitness to work. Guiding principles for such employee wellbeing schemes were introduced in 2005 following a review in 2004, to inform their further development and the introduction of new facilities and programmes.

Pensions

The Group seeks to offer retirement benefits to employees in line with local competitive market practice, as well as being consistent with guiding principles established by the Group's International Employee Benefits Action Group (IEBAG).

IEBAG consists of senior representatives from Finance, Treasury, Risk Management and HR (including one main board member, the Chief Human Resources Officer), and was established to review and oversee governance across the Group's UK and overseas retirement and related benefit arrangements and provide a structure to approve and facilitate changes to such arrangements in the areas of governance, plan design, financing, and accounting.

During 2005, IEBAG has been involved in the Group's responses to changes in international accounting standards, benefits redesign arising from UK Pensions Simplification and the implications of the UK Pension Act 2004. In addition, IEBAG has considered changes impacting its retirement and related benefit arrangements outside the UK, in particular in countries affected by the integration of the Adams businesses. Such arrangements are a mixture of defined benefit and defined contribution plans.

Details on Group pension arrangements are provided in Note 25 to the Financial Statements.

Corporate and Social Responsibility (CSR)

Cadbury Schweppes believes that corporate social responsibility is an integral part of being an effective, value-creating business. We seek to always manage the business in a way that is both profitable and responsible and adds value to shareowners and to the wider society. This commitment is explicitly stated as one of our businesses five goals; "nurture the trust of colleagues and communities".

To sustain our success in different and changing markets and diverse cultures, the Board of Cadbury Schweppes is committed to achieving superior levels of business integrity, ethics and professionalism, working to high international standards of corporate and social responsibility and corporate governance across all its activities. The Board has approved a

Financial Code of Ethics that applies to the Chief Executive Officer and senior financial officers in the Group. All executive members of the Board, the CEC and the Global Leadership Team are expected to sign Cadbury Schweppes Business Principles. This expectation also extends to the whole management population of the business, with all managers being asked to confirm annually that they and their teams have seen the Business Principles and will abide by them. The roll-out of a confidential, all employee "Speaking Up" helpline in most languages was completed in 2005, which enables employees to report concerns of breaches of our business principles. Both the Code and Business Principles are available on the Group's website www.cadburyschweppes.com. For the full corporate governance report and an outline of the Board of Directors remit, composition and activities see pages 27 to 39.

Our CSR activities involve an active engagement programme with stakeholders to both inform policy and resource allocation, and to assess the effectiveness and appropriateness of activities undertaken. We are a signatory to the UN Global Compact and endorse its ideals. Our CSR strategy and policy is directed and assessed by a Board-level CSR Committee, established in 2001 and chaired by non-executive director Lady Judith Wilcox. The terms of reference for the Board-level CSR committee are available to view on the investor centre page of the Group's website, www.cadburyschweppes.com. Alternatively, they are available in hard copy format from the Group Secretary.

The CSR committee oversees an agenda covering five activity areas:

- Human rights and employment standards;
- Ethical sourcing and procurement;
- Marketing Food and Consumer issues;
- Environment, health and safety;
- Community.

In 2005, we put in place plans for independent auditing (verification and assurance) of three areas of CSR activity and we will continue to build on, and extend, the processes. These are environment, health and safety; ethical sourcing; and internal signed commitment to our business principles.

Our 2006, and third bi-annual, CSR report will outline our activities in all these areas and will be assured by our independent CSR auditors Deloitte and Touche LLP. This report, which includes a mapping to GRI (Global Reporting Initiative) guidelines, is to be published in early summer and will be accessible via our website www.cadburyschweppes.com.

Human rights and employment standards, and Ethical sourcing and procurement;

Our Human Rights and Ethical Trading (HRET) policy has been developed taking into account international standards – such as the International Labour Organisation conventions, the UN Declaration of Human Rights, and OECD guidelines – as well as cultural and industry best practice from our local markets. Adopted by the Main Board in 2000, it covers core labour rights and dignity at work; health and safety in the workplace; fair remuneration; diversity and respect for differences and opportunity for development.

The HRET policy is there to guide to all Cadbury Schweppes' business units, as well as our suppliers and the business strategy in this area. The review of the effectiveness of policy is led by a group of senior managers who regularly assess progress.

Ethical sourcing and sustainability are two key drivers of our Global Supply Chain. Ethical Sourcing Standards for the Group based on the learning from pilot studies completed in five countries (China, Ghana, Indonesia, Mexico and Turkey), were put in place in 2002. These standards are being underpinned with a system for supplier evaluation, training for employees and a programme of engagement with our suppliers. In 2005, a new ethical sourcing director was recruited to manage the implementation of these standards.

In 2005, we continued to play a leading role in the multi-stakeholder alliance of the International Cocoa Initiative. We played a significant advocacy role with others in our sector to promote responsible labour practices and to stimulate more prosperous and sustainable cocoa farming, working with farmers. Having achieved a target for developing certification in 2005, this process is beginning to review farming activities in West Africa. There is strong support from Governments in Ghana and Cote D'Ivoire, although progress in the latter is hindered by the current civil and military unrest. Green and Black's, our organic "Fair-trade"business, set up new farmer cooperatives in Belize, with support from other parts of Cadbury Schweppes. With 1.5 million smallholder farmers in West Africa, only a fraction of whom are engaged in "Fair-trade" infrastructure, we focus on maximising ethical trade by working broadly on the root causes of poverty in these areas through education and technological development. Farmer field schools have helped over 25,000 farmer families, both increasing awareness of acceptable labour practices and generating increases in farmer family incomes.

Cadbury Schweppes is a member of the Roundtable for Sustainable Palm Oil.

In recent World Trade Organisation (WTO) trade talks, we added our voice to calls for freer access to European Union markets by developing world commodity suppliers.

Cadbury Schweppes has had an equal opportunity and diversity policy since 1993 and also has HIV/Aids global guidelines. A global employee climate survey was launched in 2004 and rolled-out to all employees in 2005 to help the business assess the commitment and engagement to the business of its employees, and in particular the opportunities to embrace CSR in their everyday work and as part of personal development. The most recent results show that whilst the considerable majority does feel that they get these opportunities, over 30% do not and that is an area for focus and improvement in 2006. Two programmes, "working better together" a cultural and organisational transformation programme, and "Passion for People" focused on the fundamental management skills needed to be successful at Cadbury Schweppes, will support this improvement.

Marketing Food and Consumer issues

Our strategy in this area is led by our Food Issues Strategy Group, which is chaired by Todd Stitzer, Chief Executive Officer, and has the Group's most senior leaders in commercial strategy, science and technology, corporate social responsibility, legal and human resources among its membership. This group drives the global strategy and plans to ensure that we are innovating, investing and managing our business to keep abreast of, understand and meet the needs of consumers with respect to the way we develop, produce and market our products.

In 2005 we rolled out a 12 Point Action Plan in response to consumer health concerns, embracing a global marketing code of advertising, including special reference to children, and an extensive series of policies on matters related to food and its content. With the aim of contributing to the development of sustainable solutions to obesity and poor lifestyles. In 2005 we undertook global consumer research studies into food, health, diet, nutrition and obesity, covering developing and developed countries, and have made these studies available to government. These studies build on work undertaken in 2004 and 2003. We are supporting (with untied and unbranded funds) primary scientific research in this area.

Building CSR into our brands is a top priority in 2006, covering areas such as labelling, consumer information, ethical sourcing, responsible advertising and cause related marketing, and an emphasis on innovation of affordable nutrition through treats for developing markets such as in Southern Africa.

We have an active engagement with the World Health Organisation and NGOs on matters of importance to consumers as it relates to our products and their lives, and have been commended for our productive approaches. More detail on our activities in this area can be found on our website: www.cadburyschweppes.com.

Environment, health and safety
Our Environment, Health and Safety (EHS) Steering Group, chaired by Chris Orchard, Director of Business Risk Management and made up of senior managers in the business, oversees our integrated EHS policy and standards. The standards are based on both ISO 14001 and OHSAS 18001. Our EHS policy deals with environmental issues related to the manufacturing of our products, protecting bio-diversity and the eco-systems from which we source raw materials, the management of our supply chain and the distribution, sale and consumption of our products. Sustainable agriculture is an important opportunity for us, as well as for the farming communities we work with. For example, biodiversity is also a key farming concern. In 2005, we partnered with the Earthwatch organisation in an innovative programme in Ghana whereby Cadbury Schweppes colleagues worked with Ghanaian scientists and farmers on the nature and role of biodiversity within cocoa farming. Commercial sustainability of high quality cocoa beans demands both environmental and social sustainability. In support of the latter in 2005, our company and its local partners built the 300th well in rural Ghana – part of its on going programme of providing fresh water locally for farming communities, which has a direct impact on health and welfare, rural development and educational opportunities.

All of our manufacturing sites are audited on a rolling programme by the Group EHS Assurance Department and areas for improvement are identified. Some sites are also externally audited and certified to one or more of the internationally recognised standards, such as ISO 14001 or OHSAS 18001.

We continue to invest in systems, processes and facilities to improve our EHS performance, which is measured and tracked against publicly available targets in the key areas of energy use, water use and greenhouse gas emissions.

Local legislative requirements for health and safety reporting vary considerably across the world. To enable us to publish a consolidated set of Group health and safety data, key performance indicators (KPIs) have been defined which all sites must report against on a globally consistent basis. The one core KPI that we have selected is Lost Time Injury Frequency Rate (LTIFR) per 200,000 man-hours. In 2005, we introduced a new global EHS data reporting system to facilitate collation of all EHS KPIs.

Safety is a key area of focus for the Group and in 2006 we are launching a safety campaign to improve safety practices across our business. The critical aim of this programme is to ensure that we operate to the same global standards in all of our businesses.

Our EHS performance data and targets are published on our website and will be available in our CSR report.

Community
We aim to create prosperous, educated, sustainable and healthy communities in the countries and cultures in which we operate. Our Growing Community Value around the World strategy guides our businesses in how they can contribute to and assist local communities. With a focus on education and enterprise, health and welfare and the environment, we develop targeted programmes for local communities, often involving commercial sponsorship, significant employee engagement through direct involvement or secondment, and help with facilities, as well as direct financial support. In 2005 the value of Cadbury Schweppes' contribution to non-profit causes totalled £9.8m, just over 1% of our pre-tax profit, paid in respect of the following charitable purposes: education and enterprise £2.74m, environment £0.72m, health and welfare £5.36m, and other £0.98m.

Our people are always a critical component of our community programmes. In recognition of the importance we place on their role in our community investment, our biannual Chairman's Award recognises outstanding examples of employee community involvement and rewards individuals or teams from any part of the business. 89 nominations were received for the 2005/6 award.

External Ratings
Our CSR performance is rated on by various external organisation's indices. These include:

- Dow Jones Sustainability World Index. In 2005, we were scored at 73%, up from 71% in 2004.
- FTSE4Good and FTSE4Good Supply Chain Labour Standards Criteria. We are included in these indices, which measure performance of companies that meet globally recognised CSR and supply chain labour standards.
- The Carbon Disclosure project included Cadbury Schweppes in their Climate Leadership Index for the second year running.
- UK's Business in the Community Corporate Responsibility Index. In 2005, we were rated at 89%, up from 87% in 2004.

Risk factors

Our business, financial condition, results of our operations or share price could be materially adversely affected by any or all of the following risks, or by others that we cannot identify. In addition to the following risk factors we face certain market risks that are discussed under the headings Treasury Risk Management, Liquidity Risk, Interest Rate Risk, Currency Risk, Fair Value Analysis, Commodities and Credit Risk on pages 72 to 74.

Competition and demand

Both the beverages and confectionery industries are highly competitive. In our major markets, we compete with other multinational corporations which have significant financial resources to respond to and develop the markets in which both we and they operate. These resources may be applied to change areas of focus or to increase investments in marketing or new products. This could cause our sales or margins to decrease in these markets. Furthermore, consumer tastes are susceptible to change. If we are unable to respond successfully to rapid changes in consumer preferences, our sales or margins in individual markets could be materially adversely affected.

Contamination

Despite safety measures adopted by the Group, our products could become contaminated. We use many ingredients in manufacturing beverages and confectionery, which increases the risk of contamination, either accidental or malicious. While we believe that incidents of this type are generally localised, any contamination may be expensive to remedy, and could cause delays in manufacturing and adverse effects on our reputation and financial condition.

Dependence on business partners

A significant part of our CSD business in the US is conducted through licensing arrangements with independent bottlers, in some of which our major competitors have substantial equity interests. These bottlers may come under pressure to replace our brands with competitor products, and although we would be able to re-licence these brands, such a change could adversely affect volumes and profit, particularly in the short term. There is also a greater concentration of our customer base around the world, due to consolidation of the retail trade. Pricing pressures from customers in countries with concentrated retail trades, could adversely impact our sales or margins. In addition, inappropriate action by or an incident at a licensee partner involving our brands could impact the reputation of Cadbury Schweppes brands or the Group as a whole.

Information technology

We depend on accurate, timely information and numerical data from key software applications to aid day-to-day decision making. We have continued to implement our new SAP based IT system, with successful launches in 2004 in our carbonated soft drinks business in the US, Cadbury Adams in Japan, and Cadbury in Ireland. In 2005 we implemented it in Great Britain – both in Cadbury Trebor Bassett and the Group HQ. Any disruption caused by a failure of this new system or similar applications, of underlying equipment or of communication networks, for whatever reason, could delay or otherwise impact day-to-day decision making, or cause us material financial losses.

Intellectual property

We and our major competitors have substantial intellectual property rights and interests which could potentially come into conflict. If any patent infringement or other intellectual property claims against us are successful, we may, among other things be enjoined from, or required to cease, the development, manufacture, use and sale of products that infringe others' patent rights; be required to expend significant resources to redesign our products so that they do not infringe others' patent rights, which may not be possible; and/or be required to obtain licenses to the infringed intellectual property, which may not be available on acceptable terms, or even at all. There is also the risk that intellectual property litigation against us could significantly disrupt our business, divert management's attention, and consume financial resources.

Legislation and regulation

Production, distribution and sale of many of our products are subject to governmental regulation regarding the production, sale, safety, labelling and composition/ingredients of such products in the various countries and governmental regions in which we operate. In addition, the manufacture of many of our products, and other activities, in various markets is subject to governmental regulation relating to the discharge of materials into the environment, and the reclamation and re-cycling of packaging waste. At all times we are subject to employment and health and safety legislation in those countries in which we have operations.

Our operations are also subject to the risks and uncertainties inherent in doing business in numerous countries. A number of countries in which we operate maintain controls on the repatriation of earnings and capital. We are subject to substantial government regulation that may change dramatically as a result of political, economic or social events. Such changes may be wide-ranging and cover cross-border trading, taxation, employment practices and environment, health and safety issues, and involve actions such as product recalls, seizure of products and other sanctions.

Manufacturing and logistics

Our manufacturing and distribution facilities could be disrupted for reasons beyond our control, such as extremes of weather, fire, supplies of material or services, systems failure, workforce actions or environmental issues. Any significant manufacturing or logistical disruptions could affect our ability to make and sell products which could cause revenues to decline.

We are in the third year of our four year Fuel for Growth programme, which includes significant restructuring of our manufacturing and distribution facilities. While this is carefully and sensitively planned, major unforeseen difficulties could nevertheless reduce our revenues and earnings.

Raw materials

Our profitability depends to some extent upon the cost of raw materials from around the world, which exposes us to price and supply fluctuation. Key items such as cocoa, milk, sugar packaging materials and energy are subject to potentially significant fluctuations in price and availability. While we take measures to protect against the short-term impact of these fluctuations, there can be no assurance that any shortfalls will be recovered. A failure to recover higher costs or shortfalls in availability could decrease our profitability.

Retirement benefits

We have various retirement benefit schemes which are funded via investments in equities, bonds and other external assets. The scheme liabilities reflect the latest salary levels. The values of such assets are dependent on, among other things, the performance of the equity and debt markets, which are volatile. Any shortfall in our funding obligations may require significant additional funding from the employing entities.

Role of food in public health

Many countries face rising obesity levels due to an imbalance between energy consumed in food and expended through activity. The reasons for the changes in society that have occurred and for some individuals having a greater inclination to obesity are multifaceted and complex. There are, however, risks associated with the possibility of government action against the food industry, such as levying additional taxes on or restricting the advertising of certain product types. This could increase our tax burden or make it harder for us to market our products, reducing sales and/or profits. Also, consumer tastes may change rapidly for health-related reasons, and if we are unable to respond our sales or margins could decline.

Forward-looking statements

Forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1934, are made throughout this Report, including in the Description of Business – Risk Factors, the Operating and Financial Review, the Report of the Directors and the Directors' Remuneration Report. These forward-looking statements are based on a number of assumptions made by Cadbury Schweppes' management concerning future events and information currently available to management. You should not rely unduly on these forward-looking statements, which are not a guarantee of performance and are subject to a number of uncertainties and other facts, many of which are outside of the Group's control, and could cause actual events to differ materially from those implicit in those statements. Although Cadbury Schweppes believes the expectations reflected in those forward-looking statements are reasonable, it cannot assure you that these expectations will prove to be correct. In addition to those factors described under "Risk Factors", other important factors that could cause actual results to differ materially from our expectations include international economic and political conditions; changes in laws, regulations, and accounting standards; distributor and licensee relationships and actions; effectiveness of spending and marketing programmes; and unusual weather patterns.

Although the Group believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements.

Comparative statements

In this Report, Cadbury Schweppes makes certain statements with respect to its market position, or its products' or brands' market positions, by comparison with third parties or their products or brands. These statements are based on independent sources, such as Euromonitor and AC Nielsen, and are accurate to the best of the knowledge and belief of Cadbury Schweppes.