

1. Nature of Operations and Accounting Policies

(a) Nature of operations and segmental results

Cadbury Schweppes plc (the “Company”) and its subsidiaries and associated undertakings (the “Group”) is an international confectionery and beverage company which sells its products in almost every country in the world. The origins of the business stretch back over 200 years. Cadbury Schweppes has a broad portfolio of well established regional and local brands which include Cadbury, Trident, Halls, Dentyne and Hollywood in the confectionery business and Dr Pepper, Seven Up, Schweppes, Snapple, Hawaiian Punch and Mott’s in the beverages business.

Significant measures used by management in assessing segmental performance include revenue, underlying profit from operations (profit from operations before restructuring costs, non-trading items, impairment and amortisation of goodwill/intangibles and IAS 39 fair value adjustments) and underlying operating margins (operating margins before restructuring costs, non-trading items, impairment and amortisation of goodwill/intangibles and IAS 39 fair value adjustments).

(b) Accounting convention

The financial statements have been prepared in accordance with the International Financial Reporting Standards, IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements are prepared under the historical cost convention, except for the revaluation of financial instruments.

The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRS 7 Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

The disclosures required by IFRS1 “First time adoption of International Financial Reporting standards” concerning the transition from UK GAAP to IFRS are given in Note 40.

(c) Preparation of financial statements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The annual financial statements are made up to the Sunday nearest to 31 December. This results periodically in a financial year of 53 weeks. The Income Statements cover the 52 weeks from 3 January 2005 to 1 January 2006 and the 53 weeks from 29 December 2003 to 2 January 2005. The balance sheets for 2005 and 2004 have been drawn up as at 1 January 2006 and 2 January 2005 respectively.

(d) Basis of consolidation

The financial statements are presented in the form of Group financial statements. The Group financial statements consolidate the accounts of the Company and the entities controlled by the Company (including all of its subsidiary entities) after eliminating internal transactions and recognising any minority interests in those entities. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain economic benefits from its activities.

Minority interests are shown as a component of equity in the balance sheet and the share of profit attributable to minority interests is shown as a component of profit for the period in the Income Statement.

Results of subsidiary undertakings acquired during the financial year are included in Group profit from the effective date of control. The separable net assets, both tangible and intangible, of newly acquired subsidiary undertakings are incorporated into the financial statements on the basis of the fair value to the Group as at the effective date of control.

Results of subsidiary undertakings disposed of during the financial year are included in Group profit up to the effective date of disposal. When the Group intends to dispose of, or classify as held for sale, a business component that represents a separate major line of business or geographical area of operations it would classify such operations as discontinued. The post tax profit or loss of the discontinued operations would be shown as a single amount on the face of the Income Statement, separate from the other results of the Group.

1. Nature of Operations and Accounting Policies continued

(d) Basis of consolidation continued

Entities in which the Group is in a position to exercise significant influence but does not have the power to control or jointly control are associated undertakings. Joint ventures are those entities in which the Group has joint control. The results, assets and liabilities of associated undertakings and interests in joint ventures are incorporated into the Group's financial statements using the equity method of accounting.

The Group's share of the profit after interest and tax of associated undertakings and joint ventures is included as one line below Profit from Operations. Investment in associated undertaking and interest in joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the entity. All associated undertakings have financial years that are coterminous with the Group's, with the exception of Camelot Group plc ("Camelot") whose financial year ends in March. The Group's share of the profits of Camelot is based on its most recent, unaudited financial statements to 30 September.

(e) Segmental analysis

Business reportable segments

Following the disposal of Europe Beverages, the Group's operational management structure has four business segments, each with its own leadership team. These four business segments, which are the Group's primary reportable segments, are: Americas Beverages, Americas Confectionery, Europe Middle East and Africa (EMEA) and Asia Pacific. Americas Beverages market, produce and distribute branded soft drinks in North America. Americas Confectionery and EMEA produce and distribute confectionery products in their respective geographical markets. The Asia Pacific segment is an aggregation of the confectionery and beverages operations in the Asia Pacific region.

Regional teams manage the segments as strategic business units. They are managed separately because of the differing market conditions and consumer tastes in the different geographies, which require differing branded products and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Secondary reportable segments

The Group presents geographical information for the following areas: UK, USA, Australia, Euro zone and Central and Southern Americas. The Euro zone segment includes all countries that currently operate the Euro and whose central bank interest rates are set by the European Central Bank. In this way all these countries have similar economic criteria e.g. low inflation, equal interest rates and identical exchange rates with other countries. As the Euro zone countries are all members of the European Union, they all have similar political conditions.

The Southern and Central Americas all operate in areas of higher than average inflation and central bank interest rates. The economies of the region are less stable than those of the developed world and have a greater than average risk of significant currency fluctuations.

Basis of allocation of costs between segments

Certain central costs are considered to relate to the operating segments where individuals have dual roles or services are provided by a Group function instead of external contractors, for example IT or legal services. These costs are recharged with a suitable mark-up and settled as other trading intercompany balances.

(f) Foreign currencies

Transaction differences arising from exchange rate variations of monetary items in trading transactions are included within profit from operations whilst those arising on financing transactions are recorded within the financing line. The functional currency of each of the Company's subsidiaries is the local currency in which each subsidiary is located, or the US dollar where this is deemed to be the functional currency. Monetary assets and liabilities denominated in a currency other than the functional currency of each of the Company's subsidiaries are translated into the functional currency at the rates ruling at the end of the financial year. The consolidated financial statements are prepared in pounds sterling. The balance sheets of overseas subsidiaries are translated into pounds sterling at the rates of exchange ruling at the end of the financial year. The results of overseas subsidiary undertakings for the financial year are translated into sterling at an annual average rate, calculated using the exchange rates ruling at the end of each four week accounting period.

Differences on exchange arising from the retranslation of opening balance sheets of overseas subsidiary undertakings (or date of control in the case of acquisitions during the year) to the rate ruling at the end of the financial year are taken directly to the Group's translation reserve. In addition, the exchange differences arising from the retranslation of overseas profit and losses from average rate to closing rate are taken directly to the Group's translation reserve. Such translation differences are recognised as income or as expense in the financial year in which the operations are disposed of.

(g) Revenue

Revenue represents the invoiced value of sales and royalties excluding inter-company sales, value added tax and sales taxes that arise as a result of the Group's sale of branded chocolate, sugar and gum confectionery products and branded soft drinks. It is stated net of trade discounts, sales incentives, up-front payments, slotting fees and other non-discretionary payments.

Revenue is recognised when the significant risks and rewards of ownership of the goods have transferred to the buyer, the price is fixed or determinable and collection of the amount due is reasonably assured. A provision for sales returns is estimated on the basis of historical returns and is recorded so as to allocate these returns to the same period as the original revenue is recorded.

(h) Research and development expenditure

Expenditure on research activities is recognised as an expense in the financial year in which it is incurred.

Development expenditure is assessed and capitalised if it meets all of the following criteria:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Capitalised development costs are amortised over their expected economic lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the financial year in which it is incurred.

(i) Advertising costs

The Group expenses all advertising costs as incurred and no amounts are capitalised for direct response advertising.

(j) Share-based payments

The Group has previously disclosed fair values for share-based payments under US GAAP. Consequently, as permitted by the transitional provisions of IFRS 2 “Share-based Payments” the Group opted for full retrospective adoption upon transition to IFRS.

The Group issues equity settled share-based payments to certain employees. A fair value for the equity settled share awards is measured at the date of grant. Management measures the fair value using the valuation technique that they consider to be the most appropriate to value each class of award. Methods used include Binomial models, Black-Scholes calculations and Monte Carlo simulations. The valuations take into account factors such as non-transferability, exercise restrictions and behavioural considerations.

An expense is recognised to spread the fair value of each award over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The estimate of the level of vesting is reviewed at least annually, with any impact on the cumulative charge being recognised immediately.

(k) Restructuring costs

The restructuring of the Group’s existing operations and the integration of acquisitions gives rise to significant incremental one-off costs. The most significant component of these restructuring costs is typically redundancy payments. The Group views Restructuring costs as costs associated with investment in future performance of the business and not part of the Group’s trading performance. These costs have a material impact on the absolute amount of and trend in the Group Profit from Operations and Operating margins. Therefore such Restructuring costs are shown as a separate line item within Profit from Operations on the face of the Income Statement. Restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to the affected parties. A liability is recognised for unsettled Restructuring costs.

(l) Non-trading items

Cadbury Schueppes’ trade is the marketing, production and distribution of branded confectionery and beverage products.

As part of its operations the Group may dispose of or recognise an impairment of subsidiaries, associates, investments, brands and significant fixed assets that do not meet the requirements to be separately disclosed outside of continuing operations. These discrete activities form part of the Group’s operating activities and are reported in arriving at the Group’s Profit from Operations, however management does not consider these items to be part of its trading activities. The gains and losses on these discrete items can be significant and can give rise to gains or losses in different reporting periods. Consequently, these items can have a material impact on the absolute amount of and trend in the Group Profit from Operations and Operating margins. Therefore any gains and losses on these non-trading items are shown as a separate line item within Profit from Operations on the face of the income statement.

(m) Earnings per Ordinary Share

Basic Earnings per Ordinary Share (EPS) is calculated by dividing the Profit for the Period attributable to Equity holders of the parent by the weighted average number of shares in issue during the year. Diluted EPS is calculated by dividing the Profit for the Period attributable to Equity holders of the parent by the weighted average number of shares in issue during the year increased by the effects of all dilutive potential ordinary shares (primarily share options).

Underlying EPS represents Basic EPS, adjusted in order to exclude amortisation and impairments of brand intangibles, restructuring costs, non-trading items, the IAS 39 fair value adjustment and tax items as described in Note 1(j).

(n) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment at least annually. Where applicable the asset is treated as a foreign currency item and restated at each year end. Where an impairment test is performed on goodwill, a discounted cash flow analysis is carried out based on the cash flows of the cash-generating unit (CGU) and comparing the carrying value of assets of the CGU with their recoverable amount. These cash flows are discounted at rates that management estimate to be the risk affected average cost of capital for the particular businesses. Any impairment is recognised immediately in the Income Statement.

1. Nature of Operations and Accounting Policies continued

(n) Goodwill continued

Upon disposal of a subsidiary, associate or joint venture the attributable goodwill is included in the calculation of the profit or loss on disposal. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

(o) Brand Intangibles

The main economic and competitive assets of the Group are its brands, including the “Cadbury” and “Schweppes” brands, which are not on the balance sheet as these are internally generated. The Group carries assets in the balance sheet only for major brands that have been acquired since 1986. Acquired brand values are calculated based on the Group’s valuation methodology, which is based on valuations of discounted cash flows. Other intangible assets are treated as local currency assets and are retranslated to the exchange rate in effect at the end of the financial year. Where the Group licenses the use of a brand then there is no value recognised in the Group’s accounts.

No amortisation is charged on over 99% of brand intangibles, as the Group believes that the value of these brands is maintained indefinitely. The factors that result in the durability of brands capitalised is that there are no material legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of these intangibles. Furthermore:

- The Group is a brands business and expects to acquire, hold and support brands for an indefinite period. The Group supports these brands through spending on consumer marketing across the business and through significant investment in promotional support. The brands capitalised are expected to be in longstanding and profitable market sectors.
- The likelihood that market based factors could truncate a brand’s life is relatively remote because of the size, diversification and market share of the brands in question.
- The Group owns the trademark for all brands valued on the balance sheet and renews these for nominal cost at regular intervals. The Group has never experienced problems with such renewals.

Where a brand’s life is not deemed to be indefinite it is written off over its expected useful life on a straight-line basis.

The Group carries out an impairment review of its tangible and intangible assets when a change in circumstances or situation indicates that those assets may have suffered an impairment loss. Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired. Impairment is measured by comparing the carrying amount of a fixed asset or of a cash-generating unit with the ‘recoverable amount’, that is the higher of its fair value less costs to sell and its ‘value in use’. ‘Value in use’ is calculated by discounting the expected future cash flows, using a discount rate based on an estimate of the rate that the market would expect on an investment of comparable risk.

(p) Software Intangibles

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised internal-use software costs include external direct costs of materials and services consumed in developing or obtaining the software, and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. These costs are amortised over their expected useful life on a straight-line basis, with the lives reviewed annually.

(q) Property, plant and equipment and leases

Assets are recorded in the balance sheet at cost less accumulated depreciation and any accumulated impairment losses. Under UK GAAP, certain assets were revalued in 1995 and the depreciated revalued amount has been treated as deemed cost on transition to IFRS.

Depreciation is charged (excluding freehold land and assets in course of construction) so as to write off the cost of assets to their residual value, over their expected useful lives using the straight-line method. The principal rates are as follows:

Freehold buildings and long leasehold properties	2.5%
Plant and machinery	7% – 10%
Vehicles	12.5% – 20%
Office equipment	10% – 20%
Computer hardware	12.5% – 33%

Short leasehold properties are depreciated over the shorter of the estimated life of the asset and the life of the lease.

In specific cases different depreciation rates are used e.g. high-speed machinery, machinery subject to technological changes or any machinery with a high obsolescence factor.

Where assets are financed by leasing agreements and substantially all the risks and rewards of ownership are substantially transferred to the Group (“finance leases”) the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. For property leases, the land and buildings elements are treated separately to determine the appropriate lease classification. Depreciation on assets held under finance leases

is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement as a financing charge. All other leases are “operating leases” and the relevant annual rentals are charged wholly to the Income Statement.

(r) Inventories

Inventories are recorded at the lower of average cost and estimated net realisable value. Cost comprises direct material and labour costs together with the relevant factory overheads (including depreciation) on the basis of normal activity levels. Amounts are removed from inventory based on the average value of the items of inventory removed.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(t) Assets held for sale and discontinued operations

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from classification and the asset is available for immediate sale in its present condition.

Disposal groups are classified as discontinued operations where they represent a major line of business or geographical area of operations. The income statement for the comparative period has been re-presented to show the discontinued operations separate from the continuing operations.

(u) Taxation

The tax charge for the year includes the charge for tax currently payable and deferred taxation. The current tax charge represents the estimated amount due that arises from the operations of the Group in the financial year and after making adjustments to estimates in respect of prior years.

Deferred tax is recognised in respect of all differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except where the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised where the carrying value of an asset is greater than its associated tax basis or where the carrying value of a liability is less than its associated tax basis. Deferred tax is provided for any differences that exist between the tax base and accounting base of brand intangibles arising from a business combination.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the deductible temporary difference can be utilised.

The Group is able to control the timing of dividends from its subsidiaries and hence does not expect to remit overseas earnings in the foreseeable future in a way that would result in a charge to taxable profit. Hence deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary. Deferred tax is recognised for unremitted overseas earnings on its associates and interests in joint ventures.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted, by the balance sheet date. Deferred tax is measured on a non-discounted basis.

(v) Pensions and other post-retirement benefits

The cost of defined contribution retirement schemes is charged as an expense as the costs become payable. Any difference between the payments and the charge is recognised as a short term asset or liability. Payments to state-managed retirement benefit schemes where the Group's obligations are equivalent to those arising in a defined contribution retirement benefit scheme are treated in the same manner.

For defined benefit retirement schemes, the cost of providing the benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Past service cost is recognised immediately to the extent the benefits are vested, and otherwise are amortised straight line over the average period until the benefits become vested. The current service cost and the recognised element of any past service cost are presented within Profit from Operations. The expected return on plan assets less the interest arising on the pension liabilities is presented within Financing. Actuarial gains and losses are recognised in full in the period in which they occur, outside of profit and loss and presented in the Statement of Recognised Income and Expense. The expected return on plan assets reflects the estimate made by management of the long-term yields that will arise from the specific assets held within the pension plan.

1. Nature of Operations and Accounting Policies continued

(v) Pensions and other post-retirement benefits continued

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and the fair value of any relevant scheme assets. Where a deep market for corporate bonds exists the discount rate applied in arriving at the present value represents yields on high quality corporate bonds in a similar economic environment with lives similar to the maturity of the pension liabilities. In the absence of a deep market for such corporate bonds a government bond yield is used. Any net assets resulting from this calculation are limited to the extent of any past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(w) Financial Instruments

Following the adoption of IAS 39 from 3 January 2005 the following are the Group's accounting policies for financial instruments. The comparatives have not been restated for the adoption of the above standards as permitted by IFRS 1 but are presented in accordance with the accounting policies detailed in 1(x).

Recognition

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument on a trade date basis.

Derivative Financial Instruments

The Group manages exposures using hedging instruments that provide the appropriate economic outcome. The Group's policy will be to apply hedge accounting to hedging relationships where it is both permissible under IAS 39, practical to do so and its application reduces volatility, but transactions that may be effective hedges in economic terms may not always qualify for hedge accounting under IAS 39. Due to the nature of many of the Group's hedging and derivative instruments it is unlikely that hedge accounting will be adopted for these hedging relationships. Consequently, movements in the fair value of derivative instruments will be immediately recognised in the income statement and may lead to increased volatility. The Group will separately disclose the impact of such volatility.

The Group is exposed to a number of different market risks arising from its international business. Derivative financial instruments are utilised by the Group to lower funding costs, to diversify sources of funding, to alter interest rate exposures arising from mismatches between assets and liabilities or to achieve greater certainty of future costs. These exposures fall into two main categories:

Transactional exposures

The Group is exposed to changes in prices of its raw materials, certain of which are subject to potential short and long term fluctuations. In respect of such commodities the Group enters into forward and future contracts in order to provide a stable cost base for marketing finished products. The use of futures contracts enables the Group to obtain the benefit of guaranteed contract performance on firm priced contracts offered by the exchanges and their clearing houses. In principle these derivatives may qualify as "cash flow hedges" of future forecast transactions. To the extent that the hedge is deemed effective, the movement in the fair value of the derivative would be deferred in equity and released to the Income Statement as the cash flows relating to the underlying transactions are incurred.

The Group has transactional currency exposures arising from its international trade. The Group also enters into certain contracts for the physical delivery of raw materials which may implicitly contain a transactional currency exposure, an "embedded derivative". The Group's policy is to take forward cover for all forecasted receipts and payments (including inter-company transactions) for as far in advance as the pricing structures are committed, subject to a minimum of three months' cover. The Group makes use of the forward foreign exchange markets to hedge its exposures. In principle these derivatives may qualify as "cash flow hedges" of future forecast transactions. To the extent that the hedge is deemed effective, the movement in the fair value of the derivative would be deferred in equity and released to the Income Statement as the cash flows relating to the underlying transactions are incurred.

Treasury hedging

Interest rate swaps, cross currency interest rate swaps and forward rate agreements are used to convert fixed rate borrowings to floating rate borrowings. In principle, these derivatives would qualify as "fair value hedges" of the underlying borrowings. To the extent that the hedge is deemed effective, the carrying value of the borrowings would be adjusted for changes in their fair value attributable to changes in interest rates through the Income Statement. There would also be an adjustment to the income statement for the movement in fair value of the hedging instrument that would offset, to the extent that the hedge is effective, the movement in the carrying value of the underlying borrowings.

Interest rate swaps and forward rate agreements are used to convert a proportion of floating rate borrowings to fixed rate. In principle, these transactions would qualify as "cash flow hedges" of floating rate borrowings. To the extent that the hedge is deemed effective the movement in the fair value of the derivative would be deferred in equity and released to the income statement as the cash flows relating to the underlying borrowing are incurred. However, where these transactions hedge another derivative (e.g. fixed to floating rate interest rate swap), they would not qualify for hedge accounting under IAS 39 because the risk being hedged is a risk created by the use of derivatives.

Forward currency contracts and currency swaps are used to convert the currency of floating rate borrowings. In principle, the majority of these derivatives would qualify as “net investment hedges” of the exchange exposure on our net investment in foreign operations. To the extent that the hedge is deemed effective, the gains or losses on fair valuation of the hedging instruments would be deferred in equity, where they would at least partially offset the gain or loss on retranslation of the net investment in the foreign operations, and be recycled to the Income Statement only on disposal of the foreign operation to which it relates.

Where it is neither practical nor permissible to apply hedge accounting to the Group’s derivative instruments, the movements in the fair value of these derivative instruments will be immediately recognised in the Income Statement within financing.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated, irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Borrowings

Borrowings are initially recognised at fair value plus any transaction costs associated with the issue of the relevant financial liability. Subsequent to initial measurement, borrowings are measured at amortised cost with the borrowing costs being accounted for on an accrual basis in profit and loss using the effective interest method. At the balance sheet date accrued interest is recorded separately from the associated borrowings within current liabilities.

(x) Group’s accounting policies for financial instruments prior to adoption of IAS 39

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk, interest rate movements and movement in raw material costs.

To qualify as a hedge, a financial instrument must be related to actual assets or liabilities or to a firm commitment or anticipated transaction. Gains and losses on hedges of existing assets or liabilities are included in the carrying amount of those assets or liabilities and are ultimately recognised in the profit and loss as part of those carrying amounts. Gains and losses on qualifying hedges of firm commitments or anticipated transactions are also deferred and are recognised in the profit and loss account or as adjustments of carrying amounts when the hedged transaction occurs.

Gains and losses on financial instruments that do not qualify as hedges are recognised as other income or expense. If a financial instrument ceases to be a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any gains or losses recognised as other income or expense.

Debt instruments

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

(y) Management performance measures

Cadbury Schweppes believes that Underlying Profit from Operations, Underlying Profit before Tax, Underlying Earnings and Underlying Earnings per Share provide additional useful information on underlying trends to shareholders. These measures are used by Cadbury Schweppes management for internal performance analysis and incentive compensation arrangements for employees. The term underlying is not a defined term under IFRS or US GAAP, and may not therefore be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measurements of profit. As the Group has chosen to present an alternative Earnings per Share measure a reconciliation of this alternative measure to the statutory measure required by IFRS is given in Note 13.

The principal adjustments made to reported profit are summarised below:

- Restructuring costs – the costs incurred by the Group in implementing the Fuel for Growth programme and integrating acquired businesses are classified as Restructuring. These are programmes involving significant one-off incremental costs. The Group views Restructuring as costs associated with investment in the future performance of the business and not part of the underlying performance trends of the business;
- Impairment and Amortisation of brand intangibles – under IFRS, the Group continues to amortise certain short-life brand intangibles. This amortisation, or any impairment charge, is not considered to be reflective of the underlying trading of the Group;
- Non trading items – whilst the gain or loss on the disposal or impairment of subsidiaries, associates, investments and fixed assets form part of the Group’s operating activities, the Group does not consider them to form part of its trading activities. The gains and losses on these discrete items can be significant and can have a material impact on the absolute amount of, and trend in, the Group Profit from Operations and operating margins. Any gains and losses on these non-trading items are therefore excluded on any such gains or losses in arriving at its Underlying Profit from Operations; and

1. Nature of Operations and Accounting Policies continued

(y) Management performance measures continued

- IAS 39 adjustments – fair value accounting – under IAS 39, the Group seeks to apply hedge accounting to hedge relationships (principally under commodity contracts, foreign exchange forward contracts and interest rate swaps) where it is permissible, practical to do so and reduces overall volatility. Due to the nature of its hedging arrangements, in a number of circumstances, the Group is unable to obtain hedge accounting. The Group continues, however, to enter into these arrangements as they provide certainty of price and delivery for the commodities purchased by the Group, the exchange rates applying to the foreign currency transactions entered into by the Group and the interest rate applying to the Group's debt. These arrangements result in fixed and determined cash flows. The Group believes that these arrangements remain effective, economic and commercial hedges.

The effect of not applying hedge accounting under IAS 39 means that the reported Profit from Operations reflects the actual rate of exchange and commodity price ruling on the date of a transaction regardless of the cash flow paid by the Group at the predetermined rate of exchange and commodity price. In addition, the movement in the fair value in the period of open contracts is recognised in the Financing charge for the period. Whilst the impacts described above could be highly volatile depending on movements in exchange rates, interest yields or commodity prices, this volatility will not be reflected in the cash flows of the Group, which will be determined by the fixed or hedged rate. The volatility introduced as a result of not applying hedge accounting under IAS 39 has been excluded to reflect the cash flows that occur under the Group's hedging arrangements.

- Tax adjustments – In order to provide comparable earnings information the tax impact of the above items are also excluded in arriving at underlying earnings. In addition, from time to time, there may be tax items that as a consequence of their size and nature are excluded from underlying earnings. In 2005, we recognised a net deferred tax asset in the UK for the first time, which has resulted in a £104 million credit to the current year taxation charge. In addition, an intra-Group transfer of certain non-tax deductible intellectual property rights undertaken in anticipation of the disposal of Europe Beverages has resulted in the recognition of an £11 million tax credit in arriving at the profit for the period from discontinued operations. As a consequence of their size and one-off nature, these amounts have been excluded from the underlying earnings of the Group.

2. Revenue

An analysis of the Group's revenue is as follows:

	2005 £m	2004 £m
Continuing operations		
Sale of goods – Confectionery	4,261	3,968
– Beverages	2,238	2,107
Rendering of services ¹	9	10
	6,508	6,085
Investment revenue (note 9)	42	48
Discontinued operations (note 32)	649	653
	7,199	6,786

¹ Rendering of services relates to research and development work performed and invoiced to third parties by the Company's S&T facilities.

3. Trading Costs

(a) Trading costs analysis:

	2005 £m	2004 £m
Cost of sales	3,091	2,571
Distribution costs	435	369
Marketing and selling costs	683	667
Administrative expenses	1,243	1,524
	5,452	5,131

Cost of sales represents those costs directly related to preparation of finished goods (including ingredients, labour, utility costs and the depreciation costs that arise on manufacturing assets). Distribution costs includes the cost of storing products and transporting it to customers. Marketing and selling costs is made up of the cost of brand support through direct advertising, and promotional marketing and the costs of supporting the sales and marketing effort. Administrative expenses include the cost of information technology, research and development and other back office functions.

We view Restructuring costs as costs associated with investment in the future performance of our business and not part of the underlying performance trends of the business. Hence these Restructuring costs are separately disclosed in arriving at Profit from Operations. We also separately disclose amortisation of brand intangibles in arriving at Profit from Operations. We consider these costs to be administrative in nature.

(b) Gross profit analysis:

	2005 £m	2004 £m
Revenue	6,508	6,085
Cost of sales	(3,091)	(2,571)
Gross profit	3,417	3,514

During 2005 the Group has moved to full absorption costing, as a consequence certain costs previously recorded as distribution costs and administrative expenses are recorded as cost of sales.

4. Restructuring Costs

During 2005, the continuing Group incurred £72 million (2004: £140 million) of Restructuring costs. These have been incurred as part of the four year Fuel for Growth programme, which commenced in 2003.

	2005 £m	2004 £m
Integrating the Adams acquisition	16	55
Other Fuel for Growth projects in the base business	56	54
Total for Fuel for Growth	72	109
Write down of IT asset	–	31
	72	140

Of this total charge of £72 million (2004: £140 million), £38 million (2004: £42 million) was redundancy related and £18 million related to external consulting costs (2004: £36 million). The remaining costs consisted of asset write offs, site closure costs, relocation costs and distribution termination payments. The analysis of these costs by region is shown below:

	2005 £m	2004 £m
Americas Beverages	6	23
Americas Confectionery	21	41
EMEA	22	22
Asia Pacific	15	18
Central	8	36
	72	140

5. Non-trading items

	2005 £m	2004 £m
Profit on disposal of subsidiaries and brands	19	20
Profit on disposal of investments	4	–
Profit/(loss) on disposal of land and buildings	2	(2)
	25	18

The profit on disposal of subsidiaries and brands in the year relates primarily to the £20 million profit on disposal of the Holland House brand in Americas Beverages offset by a loss of £1 million on the completion of the disposal of the Group's German confectionery business. Cash consideration in respect of these disposals amounted to £41 million. The disposal in 2004 relates to the sale of the South African food division and the release of provisions related to disposals in earlier years for which the obligation period has lapsed. Cash consideration in respect of these disposals amounted to £11 million.

6. Profit from Operations

Profit from operations for Continuing operations is after charging:

	2005 £m	2004 £m
Research and product innovation	67	58
Depreciation of property, plant & equipment – owned assets	162	163
– under finance leases	12	9
Amortisation of brand intangibles	6	7
Amortisation of software intangibles	19	21
Maintenance and repairs	83	78
Advertising and promotional marketing	683	667
Impairment of trade receivables	5	11

Analysis of Profit from Operations for discontinued operations is given in note 32(c).

Auditors' remuneration

	2005 £m	2004 £m
Audit services	5.0	4.2
Further assurance/audit related services	1.1	0.5
Tax services	1.1	1.1
Other services	0.3	–
Continuing and discontinued operations	7.5	5.8
Less: auditors remuneration for discontinued operations (note 32(c))	(0.5)	(0.5)
	7.0	5.3

Further assurance services primarily relate to audit of the adoption of IFRS, work in connection with the disposal of the Europe Beverages business, the half year review and shareholder/debt circular work.

The nature of tax services comprises corporation tax advice and compliance services and amounts payable in relation to advice and compliance services on personal tax for expatriates.

Amounts payable to Deloitte & Touche LLP (the auditor) and their associates by the Company and its UK subsidiary undertakings included above in respect of non-audit services were £2.1 million (2004: £1.3 million).

The policy for approval of non-audit fees is set out on page 37. In addition to the above the Group engages other accounting firms to perform certain non-audit services. Total amounts paid to other accounting firms in 2005 were £7.6 million (2004: £2.6 million) principally in relation to the disposal of Europe Beverages.

7. Employees and Emoluments

	2005 £m	2004 £m
Emoluments of employees, including Directors, comprised:		
Wages and salaries	1,009	985
Social security costs	116	115
Share based payments (see Note 26)	37	38
Post retirement benefit costs (see Note 25)	80	85
Continuing operations	1,242	1,223

	2005	2004
Average employee headcount:		
Americas Beverages	6,605	6,774
Americas Confectionery	14,175	14,002
EMEA	21,660	21,549
Asia Pacific	12,624	12,436
Central	769	662
Continuing operations	55,833	55,423

Emoluments of employees of discontinued operations totalled £95 million (2004: £102 million), giving a total for the Group of £1,337 million (2004: £1,278 million). The average employee headcount of discontinued operations totalled 2,748 (2004: 3,019), giving a total for the Group of 58,581 (2004: 58,442). Further details of discontinued operations are included in Note 32(b).

8. Directors' Remuneration

The information required by the Companies Act 1985 and the Listing Rules of the Financial Services Authority is contained on pages 41 to 56 in the Directors' Remuneration Report.

9. Investment Revenue

	2005 £m	2004 £m
Interest on bank deposits	31	39
Post retirement employee benefits	11	9
Investment revenue	42	48

10. Finance Costs

	2005 £m	2004 £m
Bank and other loans not wholly repayable within five years	27	42
Bank and other loans wholly repayable within five years	139	185
Commercial paper	18	21
Finance leases	5	4
Bank overdrafts and other short-term borrowings	31	1
Interest paid on interest rate derivatives	163	n/a
Interest received on interest rate derivatives	(153)	n/a
Fair value movements arising on derivatives not in a designated hedge accounting relationship:		
Losses	(52)	n/a
Gains	52	n/a
Finance costs	230	253

11. Taxation

	2005 £m	2004 £m
Analysis of charge in period		
Current tax – continuing operations:		
– UK	(6)	3
– Overseas	(218)	(147)
– Adjustment in respect of prior year	38	60
	(186)	(84)
Deferred tax – continuing operations:		
– UK	(13)	(21)
– Overseas	(37)	(32)
– Adjustment in respect of prior year	(8)	(8)
– Recognition of UK deferred tax asset	104	–
	46	(61)
Taxation – continuing operations	(140)	(145)

In 2005 the recognition of a net deferred tax asset in the UK is now appropriate. This has given rise to a £104 million credit to the tax charge, as an adjustment in respect of prior years. UK tax is calculated at 30 per cent (2004: 30 per cent) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In addition to the amounts recorded in the Income Statement, a deferred tax charge relating to post-retirement benefits and share awards totalling £17 million were recognised directly in equity.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005 %	2004 %
Tax at the UK corporation rate	30.0	30.0
Tax effect of share of results of associates	(1.1)	(1.1)
Tax effect of expenses that are not deductible in determining taxable profit	2.3	1.9
Tax effect of income not taxable	(2.9)	–
Tax effect of prior period adjustments	(3.6)	(8.1)
Tax effect of recognition of UK deferred tax asset	(12.3)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	2.2	0.7
Other tax effects	2.0	(0.8)
Effective tax rate for the year for continuing operations	16.6	22.6

For details of taxation and the effective tax rate for discontinued operations see note 32(d).

12. Dividends

	2005 £m	2004 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the prior year of 8.70p (2004: 8.35p) per share	178	169
Interim dividend for the year of 4.00p (2004: 3.80p) per share	82	78
	260	247

At the year-end date the final dividend had not been approved by the shareholders at the AGM and as such is not included as a liability. A final dividend for the year ended 1 January 2006 of 9.00 pence per share has been proposed, equivalent to a cash payment of approximately £186 million.

13. Earnings per share

(i) Basic EPS

An explanation of the use of an alternative EPS measure is given in Note 1(y). The reconciliation between Reported and Underlying EPS, and between the earnings figures used in calculating them, is as follows:

	Earnings 2005 £m	EPS 2005 pence	Earnings 2004 £m	EPS 2004 pence
Reported	765	37.3	525	25.9
Restructuring costs	86	4.2	166	8.2
Amortisation of brand intangibles	6	0.3	7	0.3
Non-trading items	(16)*	(0.8)	(19)	(0.9)
IAS 39 adjustment – fair value accounting	(23)	(1.1)	–	–
Effect of tax on above items	(18)#	(0.9)	(57)	(2.8)
Recognition of UK deferred tax asset	(104)	(5.1)	–	–
Underlying	696	33.9	622	30.7

* Includes £9 million relating to Europe Beverages disposal costs (see Note 32(a)).

Includes £11 million deferred tax credit arising on the intra-group transfer of retained brands.

(ii) Diluted EPS

Diluted EPS has been calculated based on the Reported and Underlying Earnings amounts above. The diluted reported and underlying EPS are set out below:

	2005 pence	2004 pence
Diluted Reported – Continuing and Discontinued	36.9	25.7
Diluted Underlying – Continuing and Discontinued	33.5	30.5

A reconciliation between the shares used in calculating Basic and Diluted EPS is as follows:

	2005 million	2004 million
Average shares used in Basic EPS calculation	2,051	2,027
Dilutive share options outstanding	23	14
Shares used in Diluted EPS calculation	2,074	2,041

Share options not included in the Diluted EPS calculation because they were non-dilutive in the period totalled 1 million in 2005 (2004: 35 million), as the exercise price of these share options was above the average share price for the relevant year.

(iii) Continuing EPS

The reconciliation between Reported Continuing and Underlying Continuing EPS, and between the earnings figures used in calculating them, is as follows:

	Earnings 2005 £m	EPS 2005 pence	Earnings 2004 £m	EPS 2004 pence
Reported – Continuing operations	692	33.8	475	23.4
Restructuring costs	72	3.5	140	6.9
Amortisation of brand intangibles	6	0.3	7	0.3
Non-trading items	(25)	(1.2)	(18)	(0.8)
IAS 39 adjustment – fair value accounting	(23)	(1.1)	n/a	n/a
Effect of tax on above items	(3)	(0.2)	(48)	(2.4)
Recognition of UK deferred tax asset	(104)	(5.1)	–	–
Underlying – Continuing operations	615	30.0	556	27.4

Diluted Continuing EPS has been calculated based on the Reported Continuing and Underlying Continuing Earnings amounts above. A reconciliation between the shares used in calculating Basic and Diluted EPS is set out above. The diluted reported and underlying earnings from continuing operations are set out below:

	2005 pence	2004 pence
Diluted Reported – Continuing Operations	33.4	23.3
Diluted Underlying – Continuing Operations	29.7	27.3

EPS information for Discontinued Operations is presented in Note 32(g).

14. Goodwill

£m

Cost and carrying amount

At 29 December 2003	2,384
Exchange differences	(89)
Recognised on acquisition of a subsidiary	51
Transfers arising on finalisation of purchase accounting	6
At 2 January 2005	2,352
Exchange differences	191
Recognised on acquisition of a subsidiary	6
Transferred to discontinued operation	(230)
Derecognised on disposal	(20)
At 1 January 2006	2,299

In 2005, goodwill recognised on acquisition of subsidiaries includes £7 million arising from recognising deferred tax on the acquired brand intangibles.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash generating units (CGUs) are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling price and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next four years and extrapolates cash flows for no more than five years, using a steady growth rate applicable to the relevant market. This rate does not exceed the average long-term growth rate for the relevant markets.

The carrying amounts of significant goodwill by cash generating unit are as follows:

	2005 £m	2004 £m
North America Beverages	525	470
USA and Canadian Confectionery	878	784
MECCA Confectionery	287	244
Western Europe Confectionery	227	255

The North America Beverages goodwill arose principally on the acquisition of DPSU, Snapple and Motts. The USA and Canadian Confectionery and MECCA Confectionery arose principally from the Adams acquisition in 2003. The Western Europe confectionery goodwill arose from a combination of the acquisition of Dandy, Adams and other smaller transactions.

15. Other intangible assets

	Brand intangibles £m	Software £m
Cost		
At 29 December 2003	3,446	185
Exchange differences	(175)	(3)
Additions	–	22
Write-off	–	(31)
At 2 January 2005	3,271	173
Exchange differences	290	7
Recognised on acquisition of a subsidiary	25	–
Additions	–	19
Transfers to discontinued operations	(370)	(5)
At 1 January 2006	3,216	194
Amortisation		
At 29 December 2003	(3)	(8)
Charge for the year	(7)	(21)
At 2 January 2005	(10)	(29)
Charge for the year	(6)	(19)
Transfers to discontinued operations	–	3
At 1 January 2006	(16)	(45)
Carrying amount		
At 2 January 2005	3,261	144
At 1 January 2006	3,200	149

The Group does not amortise over 99% of its brands by value. In arriving at the conclusion that a brand has an indefinite life, management considers the fact that the Group is a brands business and expects to acquire, hold and support brands for an indefinite period. The Group supports its brands through spending on consumer marketing and through significant investment in promotional support, which is deducted in arriving at Revenue. The amortisation period for software intangibles is 8 years.

The Group tests indefinite life brand intangibles annually for impairment, or more frequently if there are indications that they might be impaired. The recoverable amounts of the brand intangibles are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the brand intangibles. The growth rates are based on industry growth forecasts. Changes in selling price and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next four years and extrapolates cash flows for no more than five years, using a steady growth rate applicable to the relevant market. This rate does not exceed the average long-term growth rate for the relevant markets.

Significant intangible assets details

Description	Carrying amount £m	Remaining amortisation period
Brand intangibles		
Dr Pepper/Seven Up	1,047	Indefinite life
Snapple	431	Indefinite life
Hawaiian Punch	120	Indefinite life
Halls	357	Indefinite life
Trident	250	Indefinite life
Dentyne	141	Indefinite life

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Notes to the Financial Statements continued

16. Property, plant and equipment

(a) Analysis of movements

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 29 December 2003	558	2,253	43	2,854
Exchange rate adjustments	(1)	(37)	(3)	(41)
Additions	9	120	141	270
Additions on acquisition of a subsidiary	2	–	–	2
Transfers on completion	6	87	(93)	–
Disposals	(12)	(198)	(1)	(211)
At 2 January 2005	562	2,225	87	2,874
Exchange rate adjustments	43	88	12	143
Additions	14	95	181	290
Transfers on completion	31	67	(98)	–
Transfers to assets held for sale	(7)	–	(3)	(10)
Transfers to discontinued operations	(63)	(113)	(4)	(180)
Disposals	(14)	(119)	(2)	(135)
At 1 January 2006	566	2,243	173	2,982

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Accumulated depreciation				
At 29 December 2003	(83)	(1,324)	–	(1,407)
Exchange rate adjustments	1	23	–	24
Depreciation for the year	(17)	(178)	–	(195)
Disposals	1	167	–	168
At 2 January 2005	(98)	(1,312)	–	(1,410)
Exchange rate adjustments	(15)	(52)	–	(67)
Depreciation for the year	(18)	(170)	–	(188)
Transfers to assets held for sale	4	–	–	4
Transfers to discontinued operations	5	22	–	27
Disposals	1	97	–	98
At 1 January 2006	(121)	(1,415)	–	(1,536)

Carrying amount

At 2 January 2005	464	913	87	1,464
At 1 January 2006	445	828	173	1,446

The value of land not depreciated is £94 million in the continuing Group, £112 million in the total Group (2004: £112 million).

(b) Finance leases

The net book value of plant and equipment held under finance leases is made up as follows:

	2005 £m	2004 £m
Cost	228	227
Less: accumulated depreciation	(172)	(155)
	56	72

(c) Analysis of land and buildings

	2005 £m	2004 £m
Analysis of net book value		
Freehold	394	436
Long leasehold	33	19
Short leasehold	18	14
	445	469

(d) Capital commitments

Commitments for capital expenditure contracted for but not provided in the Group financial statements at the end of the year for the continuing group were £14 million (2004: £15 million), discontinued operations £nil (2004: £nil).

17. Investment in associates

(a) Analysis of components

	2005 £m	2004 £m
Shares in associated undertakings		
– Listed	50	27
– Unlisted	185	164
Total net book value of associates	235	191
Loans to associated undertakings	137	133
	372	324

The fair value of shares in listed associated undertakings is £136 million (2004: £107 million). The tax liability on disposal of our listed overseas investments in associates would be £nil.

Details of the principal associated undertakings are set out in Note 36.

(b) Analysis of movements in associated undertakings

	Listed £m	Unlisted £m	Loans to Associates £m	Total £m
Cost/carrying value at 2 January 2005	16	96	133	245
Exchange rate adjustments	1	6	14	21
Transfer to discontinued operations	–	(11)	(10)	(21)
Additions	17	16	–	33
Cost/carrying value at 1 January 2006	34	107	137	278
Share of reserves at 2 January 2005	11	68	–	79
Exchange rate adjustments	2	15	–	17
Share of profit from operations	10	47	–	57
Share of interest	(2)	(14)	–	(16)
Share of taxation	(2)	(11)	–	(13)
Dividends received	(3)	(8)	–	(11)
Transfer to discontinued operations	–	(19)	–	(19)
Share of reserves at 1 January 2006	16	78	–	94
Net book value at 2 January 2005	27	164	133	324
Net book value at 1 January 2006	50	185	137	372
Market value of listed associates (2004: £107 million)	136			

The Group's investment in Camelot Group plc ("Camelot"), the UK National Lottery Operator, is included in unlisted associated undertakings. Camelot has certain restrictions on dividend payments. In particular it requires the prior consent of the Director General of the National Lottery to declare, make or pay a dividend in excess of 40% of profit after tax for any financial year.

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17. Investment in associates continued

(c) Additional associated undertaking disclosures

Selected income statement and balance sheet headings for associated undertakings of continuing operations are as follows:

	2005 £m	2004 £m
Revenue	6,184	5,949
Profit for the period	73	71
Non-current assets	348	322
Current assets	594	494
Current liabilities	(686)	(620)
Non-current liabilities	(531)	(484)

18. Investments

	2005 £m	2004 £m
Available for sale investments	2	11

The Group has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit or loss.

The investments included above represent investments in equity securities that present the Group with opportunity for returns through dividend income and trading gains. They have no fixed maturity or coupon rate. The securities have been recorded at fair value.

19. Inventories

	2005 £m	2004 £m
Raw materials and consumables	210	228
Work in progress	66	60
Finished goods and goods for resale	437	421
	713	709

Inventories held by discontinued operations at 1 January 2006 total £20 million (Note 32(e)).

20. Trade and other receivables

	2005		2004	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade receivables	884	–	915	–
Less: provision for impairment of trade receivables	(22)	–	(30)	–
	862	–	885	–
Amounts owed by associated undertakings	39	–	34	–
Interest receivable	5	–	–	–
Other taxes recoverable	33	–	48	–
Other debtors	95	70	83	67
Prepayments and accrued income	146	–	100	–
	1,180	70	1,150	67

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. Trade receivables are denominated in the functional currency of the relevant Group reporting company.

21. Assets held for sale

	2005 £m	2004 £m
At 2 January 2005	5	9
Exchange rate adjustments	–	–
Additions	3	–
Transfer of discontinued operations	941	–
Disposals	(4)	(4)
At 1 January 2006	945	5

As discussed in Note 32, the Group announced the disposal of its Europe Beverages business in 2005. The business was available for immediate sale and the sale was completed on 2 February 2006. Hence the total assets of the Europe Beverages business have been included within Assets held for sale.

22. Trade and other payables

	2005		2004	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade payables	576	–	583	–
Amounts owed to associated undertakings	14	–	21	–
Payments on account	1	–	14	–
Interest accruals	48	–	53	–
Other taxes and social security costs	103	–	110	–
Accruals and deferred income	506	–	485	–
Government grants	–	–	–	1
Other payables	295	32	280	26
	1,543	32	1,546	27

Trade payables are denominated in the functional currency of the relevant Group reporting company. Trade payables includes accrued interest on borrowings of £43 million.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

23. Provisions

	Restructuring provisions £m	Acquisition provisions £m	Contractual, legal and other £m	Total £m
At 29 December 2003	93	21	17	131
Exchange rate adjustments	(2)	–	–	(2)
Recognised in the income statement	166	–	(10)	156
Reserves movement	–	–	(3)	(3)
Utilised in the year – cash	(162)	(3)	–	(165)
Utilised in the year – non-cash	(37)	–	–	(37)
Disposals	–	(3)	–	(3)
At 2 January 2005	58	15	4	77
Exchange rate adjustments	–	1	–	1
Recognised in the income statement	86	(4)	5	87
Utilised in the year – cash	(103)	(3)	1	(105)
Transfer to discontinued operations	(7)	–	–	(7)
At 1 January 2006	34	9	10	53

	2005 £m	2004 £m
Amount due for settlement within 12 months	42	67
Amount due for settlement after 12 months	11	10
	53	77

The charge to the Income Statement for restructuring is explained in Note 4. The majority of the restructuring provision relates to redundancy costs. Acquisition provisions relate to provisions set up at the time of prior year acquisitions.

Contractual, legal and other provisions relate to the Group's ongoing obligations relating to the disposal of subsidiaries, investments and brands. The timing of utilisation of these provisions is uncertain, but such amounts in 2006 are not expected to be significant.

24. Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Accelerated tax depreciation £m	Brand intangibles £m	Retirement benefit obligations £m	Other £m	Total £m
At 29 December 2003	60	857	(40)	56	933
Charge to equity for the year	–	–	(1)	–	(1)
Charge to Income Statement – Continuing operations	1	60	5	(5)	61
– Discontinued operations	–	(14)	–	43	29
Acquisition of subsidiary	(2)	2	–	(4)	(4)
Transfer to current tax	–	–	–	(100)	(100)
Exchange differences	3	(42)	2	(3)	(40)
At 2 January 2005	62	863	(34)	(13)	878
Charge to equity for the year	–	–	20	(3)	17
Charge/(credit) to Income Statement – Continuing operations	15	42	(50)	(53)	(46)
– Discontinued operations	–	(11)	–	(1)	(12)
Acquisition of subsidiary	–	7	–	–	7
Transfer to discontinued operations	(2)	(67)	–	(24)	(93)
Exchange differences	7	79	(1)	(5)	80
At 1 January 2006	82	913	(65)	(99)	831

The following is the analysis of the deferred tax balances for balance sheet purposes:

	2005 £m	2004 £m
Deferred tax assets	(123)	(17)
Deferred tax liabilities	954	895
	831	878

At the balance sheet date, the Group has unused tax losses of £176 million (2004: £136 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £11 million (2004: £21 million) of such losses. No deferred tax asset has been recognised in respect of the remaining £165 million (2004: £115 million) as we do not believe that it is more likely than not that these amounts will be recoverable. Tax losses of £15 million expire in 2006 and 2007, £94 million expire between 2008 and 2017 and £7 million expire after 2017. Other tax losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £4.7 billion (2004: £3.9 billion). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates and jointly controlled entities are insignificant.

25. Retirement benefit obligations

The Group has various pension schemes throughout the world and these cover a significant proportion of the current employees. The principal schemes are of the funded defined benefit type, with benefits accruing based on salary and length of service. The schemes' assets are held in external funds administered by trustees and managed professionally. Regular assessments are carried out by independent actuaries and the long-term contribution rates decided on the basis of their recommendations.

There are also a number of defined contribution schemes with benefits based on contributions to the benefit fund.

In the UK, US, Canada and South Africa, the Group has certain post-retirement medical benefit schemes whereby the Group contributes towards medical costs for certain retirees. These contributions are paid only for retirees who were members of such medical schemes before retirement.

Analysis of the Group post-retirement cost included in Profit from Operations is set out below:

	2005 £m	2004 £m
UK defined benefit schemes	42	40
Overseas defined benefit schemes – continuing operations	19	26
Overseas defined contribution schemes – continuing operations	19	18
Total continuing operations	80	84
Discontinued operations	4	1
Total	84	85

Of the charge for the year in respect of the continuing operations' defined benefit schemes, £26 million (2004: £22 million) has been included in Cost of Sales and £35 million (2004: £44 million) has been included in Administrative expenses. Actuarial gains and losses have been reported in the Statement of Recognised Income and Expense.

25. Retirement benefit obligations continued

	2005 % UK Schemes	2005 % Overseas Schemes	2004 % UK Schemes	2004 % Overseas Schemes
Main Financial assumptions as at year end				
Rate of increase in salaries	4.2	4.0–4.25	4.5	4.0–4.25
Rate of increase in pensions in payment*	2.7	2.15	2.7	2.25
Rate of increase for deferred pensioners*	2.7	2.15	2.7	2.25
Discount rate for scheme liabilities	4.75	4.3–5.75	5.3	4.75–5.75
Inflation	2.7	2.25–2.5	2.7	2.25–2.5
Medical cost inflation	5.25	5.0–10.0	5.3	5.0–10.0

*Guaranteed pension increases only apply to the UK and Irish pension schemes.

In assessing the Group's post-retirement liabilities the Group monitors mortality assumptions and uses up-to-date mortality tables. The mortality assumptions for the UK scheme were updated in 2005 following the work performed for the full triennial funding valuation. Statistical analysis performed for the funding valuation demonstrates that the mortality assumption applied is consistent with recent experience. Allowance is made in all significant schemes for expected future increases in life expectancy.

The market value of the assets and liabilities of the defined benefit schemes and post-retirement medical benefit schemes as at 1 January 2006 are as follows:

	UK Schemes Expected Rate of Return %	Overseas Schemes Expected Rate of Return %	UK Pension Schemes Market Value £m	Overseas Pension Schemes Market Value £m	Post- Retirement Medical benefits Market Value £m	Total All Schemes £m
Equities	7.7	7.3–8.5	1,107	345	2	1,454
Bonds	4.4	4.8–5.5	449	124	1	574
Property	6.3	6.0–6.6	148	31	–	179
Other	4.2	3.0–4.1	58	32	–	90
	6.7	6.95	1,762	532	3	2,297
Present value of benefit obligations			(1,930)	(695)	(41)	(2,666)
Recognised in the Balance Sheet			(168)	(163)	(38)	(369)

The Group's policy is to recognise all actuarial gains and losses immediately. Consequently there are no unrecognised gains or losses.

The market value of the assets and liabilities of the defined benefit schemes and post-retirement medical benefit schemes as at 2 January 2005 are as follows:

	UK Schemes Expected Rate of Return %	Overseas Schemes Expected Rate of Return %	UK Pension Schemes Market Value £m	Overseas Pension Schemes Market Value £m	Post- Retirement Medical benefits Market Value £m	Total All Schemes £m
Equities	8.0	6.9–8.5	962	284	2	1,248
Bonds	4.8	4.1–5.5	376	86	1	463
Property	6.7	5.7	110	27	–	137
Other	4.0	3.25	14	25	–	39
	7.1	6.5	1,462	422	3	1,887
Present value of scheme liabilities			(1,703)	(637)	(32)	(2,372)
Recognised in the Balance Sheet			(241)	(215)	(29)	(485)

Changes in the present value of the defined benefit obligation are as follows:

	2005 £m	2004 £m
Opening defined benefit obligation	(2,372)	(2,150)
Current service cost	(77)	(67)
Past service cost	12	–
Interest cost	(120)	(116)
Actuarial losses	(184)	(143)
Contributions by employees	(11)	(11)
Obligation transferred on disposal of subsidiary	3	–
Transfer to discontinued operations	12	–
Exchange differences	(30)	8
Benefits paid	101	107
Closing defined benefit obligation	(2,666)	(2,372)

Of the £2,666 million of benefit obligations above, £73 million are in respect of unfunded plans. Of the remaining obligation of £2,601 million, assets of £2,297 million are held. Changes in the fair value of these scheme assets are as follows:

	2005 £m	2004 £m
Opening fair value of plan assets	1,887	1,740
Expected return	131	125
Actuarial gains	260	71
Contributions by employees	11	11
Contributions by employer	89	53
Exchange differences	20	(6)
Benefits paid	(101)	(107)
Closing fair value of scheme assets	2,297	1,887

The actual return on plan assets was £391 million (2004: £196 million). The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. In 2005, the Group elected to make an additional £25 million and £6 million contribution to the UK and US pension schemes respectively. These payments are part of a more long-term plan to reduce the Group's pension deficit.

The expected rates of return on individual categories of plan assets are determined after taking advice from external expert advice and using available market data, for example by reference to relevant equity and bond indices published by Stock Exchanges. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

The history of the plan for the current and prior period is as follows:

	2005 £m	2004 £m
Present value of defined benefit obligation	(2,666)	(2,372)
Fair value of plan assets	2,297	1,887
Deficit	(369)	(485)
Experience adjustments on plan liabilities	(184)	(143)
Experience adjustments on plan assets	260	71

In accordance with the transitional provisions for the amendments to IAS 19 in December 2004, the disclosures above are determined prospectively from the 2004 reporting period.

The Group expects to contribute approximately £62 million to its defined benefit plan in 2006. In addition management have agreed to make an additional contribution of approximately £95 million in 2006 to further fund its defined benefit obligation and will be making further additional contributions totalling £65 million over the following few years.

26. Share based payments

The Group recognised total expenses of £39 million (2004: £39 million) related to equity-settled share-based payment transactions during the year including £2 million in respect of Europe Beverages (2004: £1 million).

The Group has a number of share option plans that are available to Board members and certain senior executives: the Long Term Incentive Plan (LTIP), the Bonus Share Retention Plan (BSRP) and the Discretionary Share Option Plans (DSOP), full details of which are included in the Directors' Remuneration Report on pages 41 to 56. The Group also has a share option scheme for all employees of the Group. All Options are normally forfeited if the employee leaves the Group before the options vest. The Group has an International Share Award Plan (ISAP) which is used to reward exceptional performance amongst employees.

An expense is recognised for the fair value at the date of grant of the estimated number of shares that will be awarded to settle the options over the vesting period of each scheme.

Share award fair values

The fair value is measured using the valuation technique that is considered to be the most appropriate to value each class of award: these include Binomial models, Black-Scholes calculations and Monte Carlo simulations. These valuations take into account factors such as non-transferability, exercise restrictions and behavioral considerations. Key assumptions are detailed below:

	2005					
	BSRP	LTIP	DSOP	ISAP		Sharesave
Expected volatility	n/a	22%	22%	n/a		22%
Expected life	3 yrs	3 yrs	#	1-3 yrs	Vesting	+5 months
Risk free rate	4.5%	n/a	4.8%	4.3%		4.3%-4.4%
Expected dividend yield	2.5%	3.0%	3.0%	2.3%-2.5%		2.2% - 2.3%
Possibility of ceasing employment before vesting	-	-	14%	-		12%-32%
Expectations of meeting performance criteria	40%	70%	85-100%	n/a		n/a
Fair value per option	92.6%	91.6% UEPS 49.6% TSR	23%	93.3%-97.8%		23.3%-35.3%

	2004					
	BSRP	LTIP	DSOP	ISAP		Sharesave
Expected volatility	n/a	22%	22%	n/a		22%
Expected life	3 yrs	3 yrs	#	1-3 yrs	Vesting	+5 months
Risk free rate	4.5%	n/a	4.7%-5.0%	4.4%-5.0%		4.6%-6.0%
Expected dividend yield	2.7%	3.0%	3.0%	2.7%-3.2%		2.7%-2.8%
Possibility of ceasing employment before vesting	-	-	11%	-		7%-33%
Expectations of meeting performance criteria	40%	70%	100%	n/a		n/a
Fair value per option	92.6%	91.4% UEPS 49.6% TSR	21.9%-23.3%	94.0%-99.2%		21.4%-32.2%

The fair value calculation of a discretionary share option uses an expected life to the point of expected exercise. This is determined through analysis of historical evidenced exercise patterns of option holders.

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The BSRP is available to a group of approximately 155 senior executives including the Executive Directors. The maximum number of shares awarded in respect of 2005 is 3,141,237 (2004: 1,417,545). 1,435,712 shares vested in 2005 (2004: 1,162,488). Also during the period, matching awards were made over 815,279 shares (2004: 724,571). The fair value of the shares under the plan is based on the market price of the Company's ordinary shares on the date of the award. Where the awards do not attract dividends during the vesting period, the market price is reduced by the present value of the dividends expected to be paid during the expected life of the awards. Awards made under this scheme are classified as equity settled. The expense recognised in respect of these awards was £13 million (2004: £12 million).

Around 100 senior executives (including the Executive Directors) are granted a conditional award of shares under the LTIP. The number of shares awarded in respect of 2005 is 2,605,000 (2004: 3,341,000). No shares vested in 2005 (2004: Nil) and lapsed shares totalled 1,943,000 (2004: 124,000). Awards made under this scheme are classified as equity settled. The expense recognised in respect of these awards was £4 million (2004: £5 million). 501,840 shares were awarded in respect of the ISAP in 2005 (2004: 472,000). (There were no lapses.)

DSOP and share save plans, details of which are set out in (b), (c) and (d) below, resulted in a charge of £21 million in 2005 (2004: £22 million).

2005: Details of the share option plans are as follows:

	Balance outstanding at the beginning of the year	Granted	Exercised	Cancelled	Balance outstanding at the end of the year	Exercise prices for options outstanding at the end of the year in the range (in £ unless otherwise stated)	Weighted average exercise price of options outstanding at the end of the year (in £ unless otherwise stated)	Weighted average contractual life in months of options outstanding at the end of the year	Exercisable at year end	Weighted average exercise price of options currently exercisable at year end (in £ unless otherwise stated)
a	10,008,064	–	2,187,121	418,398	7,402,545	2.35–3.52	3.28	29	403,264	3.41
	3,890,197	2,060,817	594,191	185,267	5,171,556	3.74–4.37	4.00	33	–	–
b	27,720,400	–	4,696,902	2,012,464	21,011,034	2.42–3.52	3.45	82	1,846,780	2.83
	59,199,505	–	16,221,194	2,273,938	40,704,373	3.79–4.82	4.53	68	37,256,239	4.95
c	5,822,500	4,588,750	–	296,500	10,114,750	4.39–5.69	4.79	23	–	–
d	15,512,250	12,020,250	28,750	718,000	26,785,750	4.39–5.71	4.78	23	–	–
e	921,607	–	116,420	64,556	740,631	2.35–3.41	3.03	27	14,859	3.41
	299,871	195,032	43,503	107,545	343,855	3.63–4.23	4.00	30	–	–
f	466,594	0	22,629	8,850	435,115	2.74–3.78	3.14	38	47,427	3.41
	0	73,623	0	3,063	70,560	4.23	4.23	57	–	–
g	3,596,188	0	1,805,012	167,540	1,623,636	\$4.66–\$6.61	\$6.61	3	–	–
	0	1,360,640	0	168	1,360,472	\$8.43	\$8.43	22	–	–
h	1,909,824	0	371,526	104,996	1,433,302	3.02–3.86	3.39	23	236,542	3.55
	0	229,314	–	0	229,314	4.59	4.59	43	–	–
	228,940	0	–	16,862	212,078	\$5.27–\$6.22	\$5.69	18	118,290	\$5.27
	0	97,600	–	0	97,600	\$7.93	\$7.93	36	–	–
i	121,605	116,495	92,836	30,671	114,593	4.34	4.34	6	–	–
j	0	822,348	0	52	822,296	\$8.43	\$8.43	22	–	–

2004: Details of the share option plans are as follows:

	Balance outstanding at the beginning of the year	Granted	Exercised	Cancelled	Balance outstanding at the year end	Exercise prices for options outstanding at the end of the year in the range (in £ unless otherwise stated)	Weighted average exercise price of options outstanding at the end of the year (in £ unless otherwise stated)	Weighted average contractual life in months of options outstanding at the end of the year	Exercisable at year end	Weighted average exercise price of options currently exercisable at year end (in £ unless otherwise stated)
a	1,074,362	–	549,841	11,399	513,122	2.35	2.35	1	–	–
	14,691,587	2,288,832	2,587,939	1,007,341	13,385,139	3.14–3.76	3.39	33	499,920	3.74
b	5,433,928	–	2,572,646	121,782	2,739,500	2.43–2.75	2.54	17	2,739,500	2.54
	53,993,317	606,750	6,140,803	3,117,026	45,342,238	2.97–4.25	3.73	84	18,893,727	3.95
	45,225,096	–	1,673,037	4,713,892	38,838,167	4.44–4.83	4.75	81	21,669,747	4.69
c	0	5,834,250	–	11,750	5,822,500	4.40–4.52	4.4	32	–	–
d	0	15,561,000	–	48,750	15,512,250	4.40–4.60	4.4	32	–	–
e	545,603	–	12,193	21,291	512,119	2.35–2.74	2.72	34	20,885	2.35
	891,296	251,395	340,907	92,425	709,359	3.29–3.78	3.5	29	88,175	3.63
f	450,111	146,775	88,189	42,103	466,594	2.74–3.89	3.15	44	–	–
g	3,324,472	1,712,548	1,082,460	358,372	3,596,188	\$4.67–\$6.61	\$5.56	10	–	–
h	1,860,060	606,071	389,287	167,020	1,909,824	3.02–3.86	3.39	31	351,954	3.43
	262,320	103,116	–	136,486	228,940	\$5.27–\$6.23	\$5.68	20	–	–
i	196,220	123,355	153,483	44,487	121,605	3.57	3.57	6	–	–

26. Share based payments continued

- (a) A Savings-Related Share Option Scheme for employees was approved by shareholders in May 1982. These options are normally exercisable within a period not later than six months after the repayment date of the relevant, "Save-as-you-Earn" contracts which are for a term of three, five or seven years.
- (b) A Share Option Plan for directors, senior executives and senior managers was approved by shareholders in May 1994. Options shown here were granted prior to 15 July 2004 and are normally exercisable within a period of seven years commencing three years from the date of grant, subject to the satisfaction of certain performance criteria.
- (c) A Share Option Plan for eligible executives (previously called the Cadbury Schweppes Share Option Plan 1994, as amended at the 2004 AGM). Options shown here were granted after 15 July 2004 and are normally exercisable up to the 10th anniversary of grant, subject to the satisfaction of certain performance criteria.
- (d) The Cadbury Schweppes (New Issue) Share Option Plan 2004 was established by the Directors, under the authority given by shareholders in May 2004. Eligible executives are granted options to subscribe for new shares only. Subject to the satisfaction of certain performance criteria, options are normally exercisable up to the 10th anniversary of grant.
- (e) A Save-as-you-Earn option plan for eligible employees of Cadbury Ireland Limited was approved by shareholders in May 1987. These options are exercisable within a period not later than six months after the repayment of the relevant "Save-as-you-Earn" contracts, which are for a term of three, five or seven years.
- (f) A Save-as-you-Earn option plan linked to additional voluntary contributions for pension purposes for eligible employees of Cadbury Ireland Limited was introduced by the trustees of Cadbury Ireland Pension Plan in 1987. These options are exercisable within a period not later than six months after the repayment of the relevant "Save-as-you-Earn" contracts, which are for a term of three, five or seven years.
- (g) The US Employees Share Option Plan 2005 (previously called the United States and Canada Employee Stock Purchase Plan 1994). The options are exercisable on a date or dates established by the Committee, provided, however, where the Exercise Price is set by reference to the Market Value on the Grant Date that no Exercise Date may be set later than 27 months from the Grant Date.
- (h) The International Savings-Related Share Option Scheme was established by the Directors, under the authority given by shareholders in May 1994. Employees in Spain, France, Portugal, Mexico, Germany and the Netherlands were granted options during 2004 and 2005. Options are exercisable within a period not later than six months after the repayment of the relevant "Save-as-you-Earn" contracts, which are for a term of three or five years.
- (i) The Asia Pacific Employee Share Acquisition Plan was established by the Directors under the authority given by shareholders in May 1994. Options are exercisable no later than 12 months after the date of invitation.
- (j) The Americas Employees Share Option Plan 2005 was established by the Directors under the authority given by shareholders in May 2004 to encourage and facilitate the ownership of Shares by eligible employees of selected subsidiaries located in North, Central and South America. The options are exercisable on a date or dates established by the Committee, provided, however, where the Exercise Price is set by reference to the Market Value on the Grant Date no Exercise Date may be set later than 27 months from the Grant Date.

For all schemes and plans described above in notes (a) and (e) to (j), there are no performance requirements for the exercising of options, except that a participant's employment with the Group must not have been terminated for cause prior to the date of exercise of the relevant option. For those schemes listed under notes (b) to (d) there are performance requirements for the exercising of options.

The weighted average exercise prices of options granted, exercised and lapsed during the year were:

	2005		
	Options Granted	Options Exercised	Options Lapsed
Savings-Related Share Option Scheme 1982	£4.37	£3.13	£3.42
Share Option Plan 1994	–	£4.12	£4.07
Share Option Plan 2004	£5.26	–	£4.48
(New Issue) Share Option Plan 2004	£5.27	£4.79	£4.59
Irish Savings-Related Share Option Scheme	£4.23	£3.32	£3.47
Irish AVC Savings-Related Share Option Scheme	£4.23	£3.38	£3.54
US Employees Share Option Plan 2005	\$8.43	\$4.69	\$4.70
International Savings-Related Share Option Scheme 1998	£4.59	£3.34	£2.49
International Savings-Related Share Option Scheme 1998	\$7.93	–	\$5.59
Asia Pacific Employee Share Acquisition Plan 2002	£4.34	£3.57	£3.62
Americas Employees Share Option Plan 2005	\$8.43	–	\$8.43
	2004		
	Options Granted	Options Exercised	Options Lapsed
Savings-Related Share Option Scheme 1982	£3.52	£3.14	£3.41
Share Option Scheme 1984 for Main Board Directors and Senior Executives	–	–	–
Share Option Scheme 1986 for Senior Management Overseas	–	–	–
Share Option Plan 1994	£4.25	£3.61	£4.29
Market Purchased Share Option Plan 2004	£4.40	–	£4.40
New Issue Share Option Plan 2004	£4.40	–	£4.40
Irish Savings-Savings Related Share Option Scheme	£3.39	£3.57	£3.27
Irish AVC Savings-Savings Related Share Option Scheme	£3.39	£3.47	£3.40
Australia and New Zealand 1993 Employee Options Contribution Plan	–	–	–
United States and Canada Employee Stock Purchase Plan 1994	\$6.61	\$5.88	\$5.52
International Savings-Related Share Option Scheme 1998	£3.58	£3.27	£3.44
International Savings-Related Share Option Scheme 1998	\$6.23	–	\$5.30
Asia Pacific Employee Share Acquisition Plan 2002	£3.57	£2.82	£2.92

Awards under the BSRP and the LTIP will normally be satisfied by the transfer of shares to participants by the trustees of the Cadbury Schweppes Employee Trust (the "Employee Trust"). The Employee Trust is a general discretionary trust whose beneficiaries include employees and former employees of the Group, and their dependants. The principal purpose of the Employee Trust is to encourage and facilitate the holding of shares in the Company by or for the benefit of employees of the Group. The Employee Trust may be used in conjunction with any of the Group's employee share plans.

In January 1997, the Company established an additional employee trust, the Cadbury Schweppes plc Qualifying Employee Share Ownership Trust (the "QUEST"), for the purpose of distributing ordinary shares in the Company on the exercise of options under the UK Savings-Related Share Option Scheme. The trustee of the QUEST is Cadbury Schweppes Group Trustees Ltd, a subsidiary of the Company. All employees of Group companies in the UK, including Executive Directors of the Company were potential beneficiaries under the QUEST. Since February 2005 the QUEST has neither acquired nor held any ordinary shares in the Company and there is no present intention that it should do so in the future. More details are in the Directors' Remuneration Report on page 55. The options held by each Director holding office at the year end are detailed in the Directors' Remuneration Report on page 54. There were no options held by them under the Irish Share Plan (see below).

The Cadbury Schweppes Irish Employee Share Scheme (the "Irish Share Plan")

In the last two years, four appropriations under the Irish Share Plan, a profit sharing plan, totalling 53,257 ordinary shares have been made to eligible employees. The prices at which the shares will vest, between 7 June 2006 and 13 December 2007 range from £4.47 to £5.43.

27. Borrowings

Group un-drawn debt facilities

The Group maintains certain committed floating rate facilities with banks as support for its debt capital markets programme. The un-drawn committed facilities available to the Group are as follows:

	Expiring within 1 year		Expiring in 1 to 2 years		Expiring beyond 2 years but less than 5 years	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Un-drawn Committed Syndicated Facility	–	–	–	–	1,000	1,042
Un-drawn Committed Subsidiary Facilities	110	31	–	–	–	–
	110	31	–	–	1,000	1,042

The un-drawn committed syndicated facility for £1,000 million expires in 2010. The margins payable on drawings under this facility are between 22.5 basis points and 38 basis points per annum and commitment fees on un-drawn amounts are between 6.75 basis points and 11.4 basis points per annum. The Group is subject to a restrictive covenant under the facility agreement requiring that the ratio of EBITDA to adjusted net interest (both as defined in the agreement), calculated as at the end of each year will be no less than 3.5:1 for the period of approximately 12 months ending on the last day of the year. The Group is currently in compliance with this covenant. For the 2005 financial year-end the ratio was 6.8 times (2004: 6.2 times). These facilities are subject to customary events of default, none of which are currently anticipated to occur. The commercial paper back-up facilities are annual facilities subject to review at various dates during each year. In addition, there are other uncommitted facilities available to the Group.

Classes of drawn debt

The Group's drawn debt at year-end was comprised of:

	2005			2004		
	Amounts due within a year £m	Amounts due after a year £m	Total £m	Amounts due within a year £m	Amounts due after a year £m	Total £m
Floating rate debt						
EUR Floating rate notes due 2007	–	410	410	–	424	424
Commercial paper	392	–	392	240	–	240
Bank loans in foreign currencies*	53	136	189	59	178	237
Bank overdrafts*	55	–	55	42	–	42
Other Notes maturing 2006–2009	57	63	120	–	68	68
Obligations under Finance Leases	20	43	63	20	66	86
Other Loans	3	–	3	17	1	18
	580	652	1,232	378	737	1,115
Fixed rate debt						
4.5% CAD Notes due 2005	–	–	–	44	–	44
7.75% Notes due 2005	–	–	–	156	–	156
5.75 USD Notes due 2006	291	–	291	–	260	260
5.75% GBP Notes due 2006	250	–	250	–	249	249
5% USD Notes due 2007	–	175	175	–	156	156
4.9% CAD Notes due 2008	–	162	162	–	141	141
3.875% USD Notes due 2008	–	581	581	–	518	518
4.25% EUR Notes due 2009	–	410	410	–	424	424
4.875% GBP Notes due 2010	–	400	400	–	399	399
5.125% USD Notes due 2013	–	581	581	–	517	517
Other Notes maturing 2006–2010	93	104	197	52	185	237
	634	2,413	3,047	252	2,849	3,101
Total Gross Borrowings	1,214	3,065	4,279	630	3,586	4,216
Less:						
Obligations under Finance Leases	(20)	(43)	(63)	(20)	(66)	(86)
Borrowings and overdrafts	1,194	3,022	4,216	610	3,520	4,130

*At year-end, the book value of assets pledged as collateral for secured loans was £1 million (2004: £1 million). The security for the borrowings shown above as secured is by way of charges on the properties of Group companies concerned.

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. At year end, there was £126 million cash and cash equivalents and short-term investments held by subsidiary companies that cannot be remitted to the Company due to local reserve bank controls.

The Notes listed above are issued out of the Group's US Debt Programme and EMTN Programme. Both Programmes are subject to standard debt covenants requiring all debt to be ranked pari passu. Both Programmes contain customary negative pledge and cross default clauses. In addition the Group is required to prepare audited annual accounts. The Group is currently in compliance with these requirements.

The interest rates on the Notes in the above table do not take into account the various interest rate swaps and cross currency swaps entered into by the Group. Details of the Group's effective currency and interest rate profiles are contained on page 126.

The Group's borrowing limit at 1 January 2006 calculated in accordance with the Articles of Association was £11,688 million.

The 3.875% USD Notes due 2008 and the 5.125% USD Notes due 2013 are both callable at the issuer's option. These notes are redeemable at the higher of 100% of the face value of the notes or the net present value of the remaining cash flows using a discount factor comprised of the US Treasury rate plus 20–25 basis points respectively.

Interest on unsecured bank loans is at rates which vary in accordance with local inter-bank rates. The weighted average interest rate payable at year end on short-term borrowings excluding overdrafts was 5.1% (2004: 5.3%). The amount of non-interest bearing loans is negligible.

Gross borrowings maturity profile

The maturity and repayment profile of the Group's gross borrowings is shown in the table below:

	Bank loans and overdrafts		Finance Leases		Other Borrowings			Total
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Within one year or on demand	111	101	20	20	1,083	509	1,214	630
Between one and two years	–	152	21	21	706	640	727	813
Between two and three years	59	26	21	22	781	662	861	710
Between three and four years	1	–	–	21	420	689	421	710
Between four and five years	75	–	–	1	400	434	475	435
After five years	1	–	1	1	579	917	581	918
	247	279	63	86	3,969	3,851	4,279	4,216
Less: amounts due for repayment within 12 months (shown under current liabilities)	(111)	(101)	(20)	(20)	(1,083)	(509)	(1,214)	(630)
Amount due for repayment after 12 months	136	178	43	66	2,886	3,342	3,065	3,586

Currency and interest repricing profile of borrowings

At the end of 2005, 84% of the Group's net borrowings were at fixed interest rates or converted to fixed rates using interest rate swaps and cross currency swaps. These fixed rate borrowings expose the Group to fair value interest rate risk. Other borrowings in the form of overdrafts, commercial paper, bank loans and loan notes (16%) were arranged at floating rates, therefore exposing the Group to cash flow interest rate risk. The Group has a policy of matching cross currency and interest rate swaps to the maturity of the underlying debt. Therefore the maturity profile in the above table represents the interest repricing profile for fixed rate debt.

27. Borrowings continued

After taking into account the various interest rate and currency swaps entered into by the Group, the effective currency and interest rate profile of the Group's borrowings were as follows:

Fixed rate analysis							2005
	Fixed rate borrowings £m	Weighted average effective interest rate %	Effect of cross currency swaps £m	Effect of interest rate swaps £m	Total fixed rate borrowings £m	Weighted average interest rate (including swaps) %	Weighted average time for which rate is fixed Years
Sterling	650	5.2	–	(250)	400	5.1	4.0
Euro	443	4.1	(21)	137	559	4.1	3.3
US Dollar Bloc	1,790	4.8	–	407	2,197	4.9	3.5
Australia/New Zealand Dollars	4	6.3	(4)	122	122	5.2	0.6
Others	160	2.3	(150)	–	10	1.0	3.1
	3,047	4.8	(175)	416	3,288	4.8	3.4

Floating rate analysis						2005
	Floating rate borrowings £m	Effect of cross currency swaps £m	Effect of interest rate swaps £m	Effect of currency swaps £m	Floating rate borrowings (including swaps) £m	
Sterling	–	–	250	593	843	
Euro	410	–	(137)	92	365	
US Dollar Bloc	343	189	(407)	(472)	(347)	
Australia/New Zealand Dollars	76	–	(122)	–	(46)	
Others	403	(14)	–	(213)	176	
	1,232	175	(416)	–	991	

Floating rate borrowings bear interest based on short-term inter-bank rates (principally LIBOR applicable to periods of three months or less) or commercial paper rates. The cash and cash equivalents, which are all at floating rates, yield interest based principally on short-term inter-bank rates (principally LIBOR applicable to periods of three months or less).

28. Financial Instruments

Treasury risk management policies

The Group is exposed to market risks arising from its international business. Derivative financial instruments are utilised by the Group to lower funding costs, to diversify sources of funding, to alter interest rate exposures arising from mismatches between assets and liabilities or to achieve greater certainty of future costs. These instruments are entered into in accordance with policies approved by the Board of Directors and are subject to regular review and audit. Other than expressly stated, the policies set out below also apply to prior years.

Substantially all derivative financial instruments that are entered into hedge specifically identified actual or anticipated transactions; movements in their fair value are highly negatively correlated with movements in the fair value of the transactions being hedged. The terms of the hedging instrument are designed to match the terms of the hedged transaction. Such anticipated transactions are all in the normal course of business and the Group is of the opinion that it is highly probable that they will occur. However some transactions do not always meet the stringent conditions prescribed by IAS 39 to obtain hedge accounting.

(a) Liquidity Risk

The Group seeks to achieve a balance between certainty of funding, even at difficult times for the markets or the Group, and a flexible, cost-effective borrowings structure. The policy, therefore, seeks to ensure that at a minimum all projected net borrowing needs are covered by committed facilities. Also, the objective for debt maturities is to ensure that the amount of debt maturing in any one year is not beyond the Group's means to repay and refinance. To this end the policy provides that at least 75% of year-end net debt should have a maturity of one year or more and at least 50%, three years or more. Committed but undrawn facilities are taken into account for this test.

(b) Interest Rate Risk

The Group has an exposure to interest rate fluctuations on its borrowings and manages these by the use of interest rate swaps, cross currency interest rate swaps, forward rate agreements and interest rate caps. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall. Thus the policy sets minimum and maximum levels of the total of net debt and preferred securities permitted to be at fixed rates in various time bands, ranging from 50% to 100% for the period up to six months, to 0% to 30% when over five years. 84% was at fixed rates of interest at year end (2004: 85%), but the year-end level of total debt is around £100 million lower than the annual average.

(c) Currency Risk

The Group operates internationally giving rise to exposure from changes in foreign exchange rates, particularly the US dollar. The Group does not hedge translation exposure and earnings because the benefit obtained from such hedging can only be temporary.

The Group seeks to relate the structure of borrowings to the trading cash flows that service them and the Group's policy is to maintain broadly similar fixed charge cover ratios for each currency bloc. Also, the fixed charge cover ratio for any currency bloc may not fall below two times in any calendar year. This is achieved by raising funds in different currencies and through the use of hedging instruments such as swaps.

The Group also has transactional currency exposures arising from its international trade. The Group's policy is to take forward cover for all forecasted receipts and payments for as far ahead as the pricing structures are committed, subject to a minimum of three months' cover. The Group makes use of the forward foreign exchange markets to hedge its exposures.

While there are exchange control restrictions which affect the ability of certain of the Group's subsidiaries to transfer funds to the Group, the operations affected by such restrictions are not material to the Group as a whole and the Group does not believe such restrictions have had or will have any material adverse impact on the Group as a whole or the ability of the Group to meet its cash flow requirements.

(d) Commodity Risk

In respect of commodities the Group enters into forward and futures contracts for cocoa, sugar and aluminium in order to provide a stable cost base for marketing finished products. The use of futures contracts enables the Group to obtain the benefit of guaranteed contract performance on firm priced contracts offered by the exchanges and their clearing houses.

(e) Credit Risk

The Group is exposed to credit related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given the Group's policy of selecting only counterparties with high credit ratings. The exposure to credit loss of liquid assets is equivalent to the carrying value on the balance sheet. The maximum credit exposure of interest rate and foreign exchange derivative contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

Counterparties to financial instruments are limited to financial institutions with high credit ratings assigned by international credit rating agencies. The Group has ISDA Master Agreements with most of its counterparties to financial derivatives, which permits net settlement of assets and liabilities in certain circumstances, thereby reducing the Group's credit exposure to individual counterparties. The Group has policies that limit the amount of credit exposure to any single financial institution. There were no significant concentrations of credit exposure at the year-end.

At the year-end, the Group had \$128 million notional value worth of currency swaps with a financial institution with a credit quality lower than that permitted under Group Policy. \$3.3 million cash collateral has been obtained from the counterparty as security to mitigate against the higher credit risk. The book value of the cash collateral is equal to its fair value. There were no significant concentrations of credit exposure at year-end.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Management therefore believe there is no further credit risk provision required in excess of normal provision for doubtful receivables.

The Group is exposed to £4,064 million in credit exposure on financial guarantees issued in respect of Group corporate borrowings and certain subsidiary undertakings which represents the Group's maximum credit exposure arising from guarantees. Refer to Note 34 on Commitments and Contingencies for further details.

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Notes to the Financial Statements continued

28. Financial Instruments continued

Terms and conditions of Financial Instruments

(f) Foreign Currency Derivatives

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on sales denominated in foreign currencies. At the year-end, the Group held contracts to exchange the following foreign currency notional amounts against Sterling:

Foreign exchange trades against £	Current				2005 Non-current			
	\$ £m	€ £m	MXN £m	Other £m	\$ £m	€ £m	MXN £m	Other £m
Purchase	289	702	–	29	–	13	–	–
Sale	(109)	(543)	(240)	(98)	–	–	–	(6)
Total £ equivalent notional	180	159	(240)	(69)	–	13	–	(6)

Foreign exchange trades against \$	Current				2005 Non-current			
	CAD £m	AUD £m	€ £m	Other £m	CAD £m	AUD £m	€ £m	Other £m
Purchase	109	18	32	67	–	4	–	–
Sale	(159)	(47)	(11)	(24)	–	(18)	–	–
Total £ equivalent notional	(50)	(29)	21	43	–	(14)	–	–

At 1 January 2006 the Group had approximately £175 million forward transactions relating to currencies other than US dollars or Sterling maturing in 2006 and £2 million maturing in 2007.

The majority of the forward foreign exchange contracts mature within 12 months. The maximum maturity of forward exchange contracts is June 2007.

Foreign exchange trades against £	Current				2004 Non-current			
	\$ £m	€ £m	MXN £m	Other £m	\$ £m	€ £m	MXN £m	Other £m
Purchase	111	518	–	3	–	10	–	–
Sale	(39)	(188)	(7)	(76)	(4)	–	–	(8)
Total £ equivalent notional	72	330	(7)	(73)	(4)	10	–	(8)

Foreign exchange trades against \$	Current				2004 Non-current			
	CAD £m	AUD £m	€ £m	Other £m	CAD £m	AUD £m	€ £m	Other £m
Purchase	88	25	5	21	–	–	–	10
Sale	(83)	(54)	(11)	(26)	(20)	(10)	–	(4)
Total £ equivalent notional	5	(29)	(6)	(5)	(20)	(10)	–	6

At 2 January 2005 the Group had approximately £184 million forward transactions relating to currencies other than US dollars or Sterling maturing in 2005 and £7 million maturing in 2006.

(g) Interest rate Derivatives

The Group uses a combination of short-term and long-term cross currency and interest rate swaps to manage the currency and interest rate profile of its borrowings. Details of the fixed rate element of the swap portfolio are shown in the table below:

	Notional principal £m	Weighted average interest rate %	Maturing in less than one year £m	Maturing in the second year £m	Maturing in the third year £m	Maturing in the fourth year £m	Maturing in the fifth year £m	After five years £m
Currency/Instrument								
£								
Receive Fixed	250	5.40	150	–	–	–	100	–
Euro								
Receive Fixed	21	3.86	–	21	–	–	–	–
Pay Fixed	137	3.72	–	–	137	–	–	–
\$								
Receive Fixed	1,046	2.96	–	581	465	–	–	–
Pay Fixed	1,454	3.62	–	814	640	–	–	–
Other								
Receive Fixed	155	2.46	58	37	60	–	–	–
Pay Fixed	122	5.31	122	–	–	–	–	–
Forward Start Pay Fixed	64	5.85	–	64	–	–	–	–

On swaps where fixed rates of interest are payable, the Group receives interest at floating rates of three months or six month LIBOR rates (or local equivalent). On swaps where fixed rates of interest are received, the Group pays interest at floating rates set at three month or six month LIBOR plus an average margin of 0.59%.

The differential to be paid or received on the current leg of swap agreements is accrued as interest rates change and is recognised within finance costs in the periods that they arise over the lives of the respective agreements. The remaining cash flows to maturity of each swap are discounted at current market rates to determine the fair value of swap agreements at year-end.

(h) Commodities

In respect of commodities the Group enters into forward and futures contracts for cocoa, sugar and aluminium in order to provide a stable cost base for marketing finished products. The use of futures contracts enables the Group to obtain the benefit of guaranteed contract performance on firm priced contracts offered by the exchanges and their clearing houses.

The Group held the following commodity futures contracts at 1 January 2006:

	2005 Fair value £m	2004 Fair value £m
Commodities (asset)	13	5
Commodities (liabilities)	(1)	(7)
Total £ equivalent notional	12	(2)

Commodity futures contracts were held in Sterling and US dollars. The majority of commodities contracts mature within one year. The notional amount of cover decreased from 273,371 metric tonnes in 2004 to 161,574 metric tonnes in 2005.

The commodities futures contracts held by the Group at the year-end exposes the Group to adverse movements in cash flow and gains or losses due to the market risk arising from changes in prices for sugar, cocoa and aluminium traded on the LIFFE (London International Financial Futures and Options Exchange), LME (London Metals Exchange) and CSCE (Coffee, Sugar and Cocoa Exchange, Inc). Applying a reasonable adverse movement in commodity prices to the Group's net commodity positions held at year end would result in a decrease in fair value of £6.8 million (2004: £11.6 million). The price sensitivity applied in this case is estimated based on an absolute average of historical monthly changes in prices in the Group's commodities over a two year period. Stocks, priced forward contracts and estimated anticipated purchases are not included in the calculations of the sensitivity analysis. This method of analysis is used to assess and mitigate risk and should not be considered a projection of likely future events and losses. Actual results and market conditions in the future may be materially different from the projection in this note and changes in the instruments held and in the commodities markets in which the Group operates could cause losses to exceed the amounts projected.

(i) Embedded Derivatives

The Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. As at 1 January 2006, the fair value of embedded derivatives was an asset of £1.9 million. This relates to various contracts for sugar, sweeteners and plastics in US dollars, with maturities of between one and five years. Amounts recorded in the Income Statement are included within those disclosed in Note 10 to the Financial Statements.

28. Financial Instruments continued

(f) Fair values and sensitivity analysis

Fair values of non-derivative financial assets and liabilities:

The fair values for public debt are based on quoted market prices. For cash and cash equivalents, trade and other receivables, trade and other payables and short-term loans and receivables with a maturity of less than one year the book values approximate the fair value because of their short-term nature. For non-public long-term loans and receivables, fair values are estimated by discounting future contractual cash flows to net present values using at the current market interest rates available to the Group for similar financial instruments as at year end. The table below contains fair values of debt instruments based on clean prices excluding accrued interest.

	2005	
	Book value £m	Fair value £m
Floating rate debt		
EUR floating rate notes due 2007	410	413
Commercial Paper	392	392
Bank Loans in Foreign Currencies	189	184
Bank overdrafts	55	55
Other Notes maturing 2006–2009	120	122
Obligations Under Finance Leases	63	64
Other Loans	3	3
	1,232	1,233
Fixed rate debt		
5.75% USD Notes due 2006	291	292
5.75% GBP Notes due 2006	250	252
5% USD Notes due 2007	175	174
4.9% CAD Notes due 2008	162	164
3.875% USD Notes due 2008	581	565
4.25% EUR Notes due 2009	410	424
4.875% GBP Notes due 2010	400	399
5.125% USD Notes due 2013	581	577
Other Notes maturing 2006–2009	197	197
	3,047	3,044
Total Gross Borrowings	4,279	4,277

For currency and interest rate derivatives, fair values are calculated using standard market calculation conventions with reference to the relevant closing market spot rates, forward foreign exchange and interest rates. The fair values of derivative instruments are based on the estimated amount the Group would receive or pay if the transaction was terminated. Financial derivatives are recorded on the balance sheet at fair value with changes in fair value being recognised immediately in the income statement, except when the derivative has been designated as part of an effective cash flow hedge in which case up to all the gains and losses could be deferred into equity until the hedged transaction affects the income statement.

The table below presents the changes in fair value of the Group's financial instruments to hypothetical changes in market rates. The analysis below shows forward-looking projections of market risk assuming certain adverse market conditions occur. The sensitivity figures are calculated based on an upward parallel shift of 1% in yield curves and 10% weakening of Sterling against other exchange rates. This is a method of analysis used to assess and mitigate risk and should not be considered a projection of likely future events and losses. Actual results and market conditions in the future may be materially different from those projected and changes in the instruments held and in the financial markets in which the Group operates could cause losses to exceed the amounts projected.

As at 1 January 2006	Fair value change arising from			
	Book value £m	Fair value £m	1% decrease in interest rates favourable/ (unfavourable) £m	10% weakening in £ against other currencies favourable/ (unfavourable) £m
Derivatives				
Currency and interest rate swaps (assets)	12	12	2	1
Currency and interest rate swaps (liabilities)	(1)	(1)	–	–
Interest rate swaps (assets)	26	26	14	2
Interest rate swaps (liabilities)	(35)	(35)	(20)	(3)
Currency exchange contracts (assets)	22	22	–	4
Currency exchange contracts (liabilities)	(24)	(24)	–	–
Commodity contracts (assets)	7	13	–	1
Commodity contracts (liabilities)	(1)	(1)	–	–
Total assets	67	73	16	8
Total liabilities	(61)	(61)	(20)	(3)

Note some commodities are cash settled on a daily basis. Fair value gains and losses relating to these commodity instruments are reflected in cash and cash equivalents on the Balance Sheet. At the year-end there was £6.3 million worth of gains relating to cash settled commodities.

29. Capital and reserves

(a) Share capital of Cadbury Schweppes plc

	2005 £m	2004 £m
Authorised Share Capital:		
Ordinary shares (3,200 million of 12.5p each)	400	400
Allotted, called up and fully paid Share Capital:		
Ordinary shares (2,084 million of 12.5p each)	260	259

(b) Ordinary Shares

During the year 11,528,687 ordinary shares of 12.5p were allotted and issued upon the exercise of share options (see Note 26). The nominal value of ordinary shares issued during the year was £1.4 million. There were no other changes in the issued ordinary share capital of the Company during 2005.

During 2004 8,446,409 ordinary shares of 12.5p were allotted and issued upon the exercise of share options (see Note 26). The nominal value of ordinary shares issued during the year was £1.1 million. There were no other changes in the issued ordinary share capital of the Company during 2004.

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Notes to the Financial Statements continued

29. Capital and reserves continued (c) Movements on capital and reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedging and translation reserve £m	Retained earnings £m	Total £m
At 29 December 2003	258	1,071	90	–	487	1,906
Currency translation differences (net of tax)	–	–	–	(122)	–	(122)
Movement in own shares	–	–	–	–	57	57
Actuarial losses on defined benefit pension schemes (net of tax)	–	–	–	–	(74)	–
Shares issued	1	27	–	–	(3)	25
Profit for the period attributable to equity holders of the parent	–	–	–	–	525	525
Dividends paid	–	–	–	–	(246)	(246)
At 2 January 2005	259	1,098	90	(122)	746	2,071
IAS 39 transition balance sheet adjustments	–	–	–	(8)	(18)	(26)
Currency translation differences (net of tax)	–	–	–	257	–	257
Movement in own shares	–	–	–	–	103	103
Actuarial gains on defined benefit pension schemes (net of tax)	–	–	–	–	56	56
IAS 39 transfers to income or expense	–	–	–	6	–	6
Shares issued	1	37	–	–	(1)	37
Profit for the period attributable to equity holders of the parent	–	–	–	–	765	765
Dividends paid	–	–	–	–	(261)	(261)
At 1 January 2006	260	1,135	90	133	1,390	3,008

During 2005, the Company held 22 million shares (2004: 39 million shares) of own shares purchased by the Cadbury Schweppes Employee Trust for use in employee share plans. The fair value cost of providing shares awarded and expected to vest under employee share plans is accrued over the vesting period of the plans.

During 2005, the Company received £38 million on the issue of shares in respect of the exercise of options awarded under various share option plans. Employees paid £37 million to the company for the issue of these shares and the balance of £1 million comprised contributions from an employee share trust funded by subsidiary undertakings.

30. Minority interests

	Equity £m	Non-Equity £m	Total £m
At 29 December 2003	18	225	243
Exchange rate adjustments	(1)	(16)	(17)
Share of profit after taxation	4	18	22
Dividends declared	–	(19)	(19)
At 2 January 2005	21	208	229
Exchange rate adjustments	3	11	14
Share of profit after taxation	5	6	11
Redemption of QUIPS	–	(219)	(219)
Dividends declared	(1)	(6)	(7)
Purchase of shares from minorities	(1)	–	(1)
At 1 January 2006	27	–	27

On 12 April 1995, Cadbury Schweppes Delaware LP, a wholly owned subsidiary issued 16 million 8.625% Cumulative Guaranteed Quarterly Income Preferred Securities with an aggregate liquidation preference of USD 400 million (the “QUIPS”) for proceeds of USD 400 million. On 18 April 2005, the QUIPS were redeemed in full for a total consideration of £219 million. Distributions on the QUIPS were cumulative and payable at an annual rate of 8.625% of the liquidation amount, quarterly in arrears. The QUIPS were not subject to redemption, but were repayable solely at the issuer’s option, in the whole or in part, since 12 April 2002 for a cash redemption price equal to USD 25 per preferred security. These securities were traded on the New York Stock Exchange. The Company fully and unconditionally guaranteed any distributions declared by Cadbury Schweppes Delaware to the holders of QUIPS. In the event that dividends to the holders of QUIPS had been in arrears, the Company would have been unable to declare a dividend on its ordinary share capital until such time as the outstanding dividends to the holders of the QUIPS had been satisfied in full.

31. Acquisitions

2005 Acquisitions

During the year, the Group purchased Green & Black's, achieved final settlement on the acquisition of the Adams business in China and completed a number of small acquisitions for a total cash consideration of £38 million.

The acquisition of Green & Black's, the premium organic chocolate business, occurred on 12 May 2005. The Group purchased a 5 per cent stake in the company in 2002 and acquired the remaining shares in 2005.

The acquisition of the business adds the UK's fastest growing confectionery brand to the Group's portfolio. This will enable the Group to benefit from the continued growth of the luxury organic chocolate brand and enhance the international expansion of Green & Black's. A brand intangible of £25 million and goodwill of £7 million have been recognised in the financial statements.

The net assets of the companies acquired during the year are not significant in comparison to the Group and there were no other significant provisional fair value adjustments. The fair values of the assets and liabilities acquired are provisional due to the timing of the transactions. Fair value adjustments will be finalised in the 2006 accounts.

2004 Acquisitions

On 11 March 2004, the Company completed the acquisition of the entire Adams business in China from Pfizer Inc. This followed the 2003 acquisition of the Adams Confectionery business from Pfizer Inc in all jurisdictions except China. On 31 October 2004, the Company acquired the rights to produce and distribute Orangina for a number of additional countries, the most significant of which were the UK, Algeria and Croatia.

The total cash paid (including acquisition costs) amounted to £59 million, on which goodwill of £57 million arose.

A summary of the net assets and liabilities arising on acquisitions during 2004 is set out below:

	All acquisitions		
	Local book values £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	–	–
Property, plant and equipment	18	(16)	2
Inventories	1	–	1
Trade and other receivables	1	(7)	(6)
Trade and other payables	13	(2)	11
Other	(13)	6	(7)
	<u>20</u>	<u>(19)</u>	<u>1</u>
Goodwill			57
			<u>58</u>
Cash consideration			58
Transaction costs			1
Cash paid			<u>59</u>
Net cash acquired			<u>(1)</u>
Net cash paid			<u>58</u>

Included in the above table is the finalisation of purchase price and fair value adjustments in respect of the 2003 acquisition of Adams. The impact on goodwill arising from these adjustments amounts to £4 million. In addition the finalisation of fair value adjustment in respect of other 2003 acquisitions amounts to £2 million. The adjustments primarily relate to property related fair value adjustments and the reclassification of certain debtor balances.

Of the £15 million of provisional fair value adjustments noted above the principal adjustments related to the revaluation of tangible fixed assets to reflect the market value of the production facilities and plant and machinery acquired in the Adams China acquisition.

The acquisitions contributed £3 million of Revenue and £nil to Group Profit from Operations to the Group's results in 2004.

32. Discontinued Operations

On 1 September 2005, the Group announced its intention to sell its Europe Beverages business. From this date the segment has been classified as a discontinued operation. On 21 November 2005, the Group received a binding offer to buy its Europe Beverages business conditional upon receiving European Union regulatory approval. The disposal was effected in order to allow the Group to focus on its faster growing confectionery and other beverage businesses. The disposal completed on 2 February 2006.

(a) The results of the discontinued operations which have been included in the consolidated income statement are as follows:

	2005 £m	2004 £m
Revenue	649	653
Trading costs	(537)	(537)
Restructuring costs	(14)	(26)
Amortisation/impairment of intangibles	–	–
Non-trading items	–	1
Profit from Operations	98	91
Share of result in associates	–	(1)
Profit before Financing and Taxation	98	90
Investment income	–	–
Finance costs	(1)	–
Profit before Taxation	97	90
Taxation	(15)	(40)
Disposal costs	(9)	–
Attributable tax expense	–	–
Net profit attributable to discontinued operations	73	50

The Disposal costs relate to transaction costs incurred before the year end.

(b) Employees and emoluments

	2005 £m	2004 £m
Emoluments of employees, including Directors, comprised:		
Wages and salaries	70	79
Social security costs	19	21
Share based payments	2	1
Post-retirement benefit costs	4	–
	95	101

	2005	2004
Average employee headcount:		
Europe Beverages	2,748	3,019

(c) Profit from operations is after charging:

	2005 £m	2004 £m
Research and product innovation	3	3
Depreciation of property, plant and equipment – owned assets	14	23
Maintenance and repairs	7	7
Advertising and promotional marketing	76	73
Impairment in trade receivables	1	1
Auditors' remuneration		
Audit services	0.5	0.5
	0.5	0.5

(d) Taxation

	2005 £m	2004 £m
Current tax – discontinued operations:		
– UK	(19)	–
– Overseas	(9)	(11)
– Adjustment in respect of prior year	1	–
	(27)	(11)
Deferred tax – discontinued operations:		
– UK	–	(1)
– Overseas	12	(38)
– Adjustment in respect of prior year	–	10
	12	(29)
Taxation from discontinued operations	(15)	(40)

UK tax is calculated at 30 per cent (2004: 30 per cent) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the Income Statement as follows:

	2005 %	2004 %
Tax at the UK corporation rate	30.0	30.0
Tax effect of share of results of associates	–	–
Tax effect of expenses that are not deductible in determining taxable profit	2.9	–
Tax effect of intangible asset	(12.3)	19.7
Tax effect of income not taxable	(0.8)	–
Tax effect of prior period adjustments	(1.3)	(11.1)
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	1.7
Other tax effects	(3.0)	4.1
Effective tax rate for the year for discontinued operations	15.5	44.4

32. Discontinued Operations continued

(e) The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2005 £m
Assets	
Non-current assets	
Goodwill	230
Brand intangibles	370
Software intangibles	2
Property, plant and equipment	153
Investment in associates	30
Deferred tax assets	1
Trade and other receivables	1
	787
Current assets	
Inventories	20
Short-term investments	3
Trade and other receivables	116
Tax recoverable	3
Cash and cash equivalents	11
Derivative financial instruments	–
	153
Non-current assets held for sale	1
Total Assets	941
Liabilities	
Current liabilities	
Trade and other payables	(160)
Tax payable	(3)
Short-term borrowings and overdrafts	(8)
Short-term provisions	(4)
Current instalments of finance leases	(2)
Derivative financial instruments	–
	(177)
Non-current liabilities	
Trade and other payables	(1)
Borrowings	–
Retirement benefit obligation	(12)
Tax payable	–
Deferred tax liabilities	(94)
Long-term provisions	(3)
Obligations under finance leases	(4)
	(114)
Total Liabilities	(291)
Net Assets	650

IFRS requires that the total assets and total liabilities of discontinued operations are each shown separately and excluded from the individual line items of the Balance Sheet. However no re-presentation of the prior period is required and the assets and liabilities are included in the individual line items. Hence only amounts in respect of 2005 are shown above.

(f) Cash flows from discontinued operations included in the Consolidated Cash Flow Statement are as follows:

	2005 £m	2004 £m
Net cash flows from operating activities	89	96
Net cash flows from investing activities	(12)	(10)
Net cash flows from financing activities	–	–
	77	86

(g) Earnings per Share from discontinued operations are as follows:

	Earnings		EPS	
	2005 £m	2004 £m	2005 pence	2004 pence
Reported	73	50	3.5	2.5
Restructuring costs	14	26	0.7	1.3
Amortisation of brand intangibles	–	–	–	–
Non-trading items	–	(1)	–	(0.1)
IAS 39 adjustment – fair value accounting	–	n/a	–	n/a
Disposal costs	9	–	0.4	–
Effect of tax on above items	(15) [#]	(9)	(0.7)	(0.4)
Underlying	81	66	3.9	3.3

[#] Includes £11 million deferred tax credit arising on the intra-group transfer of retained brands.

The diluted reported and underlying earnings are set out below:

	2005 pence	2004 pence
Diluted Reported	3.5	2.4
Diluted Underlying	3.8	3.2

Diluted EPS has been calculated based on the Reported and Underlying Earnings amounts above. A reconciliation between the shares used in calculating Basic and Diluted EPS is included in Note 13.

33. Leasing Commitments

(a) Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2005 £m	2004 £m	2005 £m	2004 £m
On leases expiring:				
Within one year	23	22	20	20
Between one and five years	44	68	42	65
After five years	1	1	1	1
	68	91	63	86
Less future finance charges	(5)	(5)		
Present value of lease obligations	63	86		
Amount due for settlement within 12 months	20	20		
Amount due for settlement after 12 months	43	66		

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements are entered into for contingent rental payments. The fair value of the Group's lease obligations approximates their carrying amount. Leasing commitments at 1 January 2006 are for the continuing group, the comparative includes Europe Beverages.

33. Leasing Commitments continued

(b) Operating leases

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005 £m	2004 £m
Within one year	52	57
Between one and five years	133	127
After five years	113	102
	298	286

Operating lease expenses charged in the income statement were as follows:

	2005 £m	2004 £m
	57	66

34. Contingent liabilities and financial commitments

- (a) Cadbury Schweppes plc (the 'Company') has guaranteed borrowings and other liabilities of certain subsidiary undertakings, the amounts outstanding and recognised on the Group Balance Sheet at 1 January 2006 being £4,064 million (2004: £3,898 million). In addition, certain of the Company's subsidiaries have guaranteed borrowings of certain other subsidiaries. The amount covered by such arrangements as at 1 January 2006 was £3,607 million (2004: £3,592 million). Payment under these guarantees would be required in the event that the relevant subsidiary was unable to pay the guaranteed borrowings when due. These guarantees cover the majority of the Group's borrowings of £4,279 million (2004: £4,216 million) and have the same maturity.
- (b) Subsidiary undertakings have guarantees and indemnities outstanding amounting to £14 million (2004: £76 million).
- (c) The Company has a contingent obligation to subscribe for loan notes of up to £10 million during the period in respect of which Camelot Group plc has the licence to run the National Lottery (at present until 31 January 2009) and for six months after the termination of the licence. The obligation exists to ensure that Camelot Group plc has sufficient assets to satisfy its liabilities relating to its operation of the National Lottery.
- (d) The Group has given a number of indemnities on certain disposals including as to the ownership of assets and intellectual property, all outstanding tax liabilities, environmental liabilities and product liability claims. These may expire over a period of time up to the local statute of limitations although for ownership of assets and intellectual property these may be indefinite. Where appropriate the Group has made provisions for any liabilities which may crystallise.
- (e) Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Group does not have a significant exposure to any individual customer, counterparty, or to any geographical region. The Group conducts business with banks representing many nationalities, in most cases through offices and branches located in London and maintains strict limits over its exposure to any individual counterparty.
- (f) Group companies are defendants in a number of legal proceedings incidental to their operations. The Group does not expect that the outcome of such proceedings either individually or in the aggregate will have a material effect on the Group's operations, cash flows or financial position.

35. Notes to the cash flow statement

Reconciliation of cash flow from operating activities

	2005 £m	2004 £m
Profit from operations – Continuing Operations	1,003	825
Discontinued Operations	98	91
	1,101	916
Adjustments for:		
Depreciation and amortisation	213	222
Restructuring	(17)	5
Non-trading items	(25)	(19)
Post-retirement benefits	7	19
Additional funding of past service pensions deficit	(31)	–
Other non-cash items	11	40
Operating cash flows before movements in working capital	1,259	1,183
Decrease/(increase) in inventories	10	(47)
(Increase)/decrease in receivables	(83)	9
Increase/(decrease) in payables	110	(39)
Net movement in working capital	37	(77)
	1,296	1,106
Income taxes paid	(206)	(150)
Net cash from operating activities	1,090	956

36. Group companies

Activities	Country of incorporation and operation	Proportion of issued share capital held if not 100%
Details of principal associated undertakings		
L'Europeenne D'Embouteillage SAS*	(b) France	50%
Camelot Group plc*	(c) Great Britain (ii)	20%
Dr Pepper/Seven Up Bottling Group, Inc	(b) US	45.4%
Meito Adams Company Ltd	(a) Japan	50%
Cadbury Nigeria PLC (listed)**	(a) Nigeria	46.4%
Crystal Candy (Private) Ltd	(a) Zimbabwe (i)	49%
Details of principal subsidiary undertakings		
Operating companies (unless otherwise stated)		
United Kingdom:		
Cadbury Trebor Bassett (an unincorporated partnership operating in Great Britain between Cadbury Ltd, Trebor Bassett Ltd and The Lion Confectionery Co Ltd)	(a) n/a	
Green & Black's Chocolate Ltd*	(a) Great Britain	
Reading Scientific Services Ltd*	(c) Great Britain	

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Notes to the Financial Statements continued

36. Group companies continued

	Activities	Country of incorporation and operation	Proportion of issued share capital held if not 100%
Europe:			
Cadbury Belgium NV	(a)	Belgium	
Schweppes Belgium SA [#]	(b)	Belgium	
Dandy A/S	(a)	Denmark	
Cadbury Stomorol Danmark A/S	(a)	Denmark	
Cadbury France	(a)	France	
Centre d'Elaboration des Concentrés Orangina [#]	(b)	France	
Comptoir Européen de la Confiserie	(a)	France	
Orangina Schweppes Holding [#]	(b)	France	
Apollinaris & Schweppes GmbH [#]	(b)	Germany	
Cadbury Hellas AE	(a)	Greece	
Berkeley Re Ltd	(c)	Ireland	
Cadbury Ireland Ltd	(a)	Ireland	
Cadbury Italia SpA	(a)	Italy	
Cadbury Nederland BV	(a)	Netherlands	
Cadbury CIS BV	(a)	Netherlands	
Schweppes International Ltd [#]	(b)	Netherlands† (i)	
Cadbury Wedel Sp. zo.o.	(a)	Poland	
Cadbury Portugal – Produtos de Conféitaria, Lda	(a)	Portugal	
Schweppes Portugal, SA [#]	(b)	Portugal	
Dirol Cadbury LLC	(a)	Russia	
Cadbury España, SL	(a)	Spain	
Cadbury Schweppes Bebidas de España SA [#]	(b)	Spain	
La Casera SA [#]	(b)	Spain	
Cadbury Sweden AB	(a)	Sweden	
Cadbury Switzerland Faguet & Co	(a)	Switzerland	
Americas:			
Cadbury Stani Adams Argentina SA	(a)	Argentina (ii)	
Cadbury Adams Brasil Industria e Comercio de Produtos Alimenticios Ltda	(a)	Brazil	
Cadbury Adams Bolivia S.A.	(a)	Bolivia	
Cadbury Adams Canada Inc	(a)	Canada	
Cadbury Beverages Canada Inc	(b)	Canada	
Cadbury Stani Adams Chile Productos Alimenticios Ltda	(a)	Chile	
Cadbury Adams Colombia SA	(a)	Colombia	
Cadbury Adams Costa Rica SA	(a)	Costa Rica	
Cadbury Adams Dominicana S.A.	(a)	Dominican Republic	
Cadbury Adams Ecuador SA	(a)	Ecuador	
Cadbury Adams El Salvador SA de CV	(a)	El Salvador	
Cadbury Adams Guatemala, SA	(a)	Guatemala	
Cadbury Adams Distribuidora Mexico, SA de C.V.	(a)	Mexico	
Cadbury Adams Mexico, S de RL de CV	(a)	Mexico	
Distribuidora Anahuac, SA de CV	(b)	Mexico (ii)	
Distribuidora de Aguas Minerales, SA de CV	(b)	Mexico (ii)	
Cadbury Adams Panama, SA	(a)	Panama	
Cadbury Adams Peru SA	(a)	Peru	
Cadbury Adams USA LLC	(a)	US (i)	
Dr Pepper/Seven Up, Inc	(b)	US	
Mott's LLP	(b)	US	
Pacific Snapple Distributors, Inc	(b)	US	
Snapple Beverage Corp	(b)	US	
Snapple Distributors, Inc	(b)	US	
CAS Uruguay SA	(a)	Uruguay	
Cadbury Adams, SA	(a)	Venezuela	

Activities	Country of incorporation and operation	Proportion of issued share capital held if not 100%
Operating companies continued		
Other overseas:		
Cadbury Schweppes Pty Ltd	(a)(b) Australia (i)	
Cadbury Confectionery (Guangzhou) Co, Ltd	(a) China	
Cadbury Food Co Ltd China	(a) China	
Trebor Wuxi Confectionery Company Ltd	(a) China	
Cadbury Egypt Group for Food Industries Company	(a) Egypt	
The International Company for Gum and Confectionery S.A.E. 'Incogum'	(a) Egypt	
Cadbury Ghana Ltd	(a) Ghana	
Cadbury Four Seas Company Ltd	(a) Hong Kong	70%
Cadbury India Ltd	(a) India	97.4%
PT Cadbury Indonesia	(a) Indonesia	
Cadbury Japan Ltd	(a) Japan	
Cadbury Kenya Ltd	(a) Kenya	
Cadbury Adams Middle East SAL	(a) Lebanon	
Cadbury Confectionery Malaysia SB	(a) Malaysia	65.5%
Cadbury Morocco	(a) Morocco	
Cadbury Confectionery Ltd	(a) New Zealand	
Cadbury Pakistan Ltd	(a) Pakistan	96%
Cadbury Singapore Pte Ltd	(a) Singapore	
Bromor Foods (Pty) Ltd	(a) South Africa	
Cadbury South Africa (Pty) Ltd	(a) South Africa	
Cadbury (Swaziland) (Pty) Ltd	(a) Swaziland	
Cadbury Adams (Thailand) Ltd	(a) Thailand	
Kent Gıda Maddeleri Sanayii ve Ticaret Anonim Sirketi	(a) Turkey (ii)	65.4%
Finance and holding companies:		
Cadbury Schweppes Australia Ltd	(c) Australia (ii)	
CS Finance Pty Ltd	(c) Australia (i)	
Cadbury Schweppes France SAS	(c) France	
Berkeley Square Investments Ltd*	(c) Great Britain	
Cadbury Schweppes Asia Pacific Pte Ltd	(c) Singapore	
Cadbury Schweppes Finance p.l.c.*	(c) Great Britain	
Cadbury Schweppes Holdings LLC	(c) Great Britain+ (i)	
Cadbury Schweppes Investments plc*	(c) Great Britain	
Cadbury Schweppes Overseas Ltd	(c) Great Britain	
Cadbury Schweppes US Investments Ltd	(c) Great Britain	
Vantas International Ltd*	(c) Great Britain	
Cadbury Schweppes Treasury Services	(c) Ireland (i)	
Adams MeCCA Holdings BV	(c) Mexico–	
Cadbury Aguas Minerales, SA de CV	(c) Mexico (i) (ii)	
Cadbury Schweppes Investments BV	(c) Netherlands (i)	
Cadbury Schweppes Delaware, LP	(c) US	
Cadbury Schweppes Holdings (U.S.)	(c) US	
CBI Holdings Inc	(c) US (i)	

* Investment directly held by Cadbury Schweppes plc

** Proportion of issued share capital held increased to 50.02% post year-end.

† Incorporated in Great Britain.

– Incorporated in Netherlands.

+ Incorporated in US.

Company disposed on 2 February 2006 following the sale of Europe Beverages.

Advantage has been taken of Section 231(5) of the Companies Act 1985 to list only those undertakings as are required to be mentioned in that provision, as an exhaustive list would involve a statement of excessive length.

The nature of the activities of the individual companies is designated as follows:

(a) Confectionery

(b) Beverages

(c) Other (including holding companies)

The percentage voting right for each principal subsidiary is the same as the percentage of ordinary shares held.

Issued share capital represents only ordinary shares or their equivalent except for companies marked (i) where there are also preference shares or (ii) where there are both A and B classes of ordinary shares.

37. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

Trading transactions

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
DPSUBG	242	285	73	5	36	23	11	9
EE	41	35	170	123	5	–	8	3
Meito Adams	5	6	36	36	1	–	3	2

DPSUBG – Dr Pepper/Seven Up Bottling Group, Inc

EE – L'Europeenne D'Embouteillage SAS

Remuneration of key management personnel

Key management of the Group are the Executive Directors and the Chief Executive's Committee (see page 9 for details). Short-term employee benefits expense relating to these individuals was £10 million (2004: £9 million) and share-based payments expense was £10 million (2004: £8 million).

38. Foreign currency translation

The principal exchange rates used for translation purposes were as follows (£1=):

	Average 2005	Average 2004	Closing 2005	Closing 2004
US dollar	1.82	1.83	1.72	1.92
Canadian dollar	2.20	2.21	2.01	2.30
Australian dollar	2.39	2.48	2.34	2.45
Euro	1.46	1.47	1.46	1.41
South African rand	11.5	11.7	10.9	10.8
Mexican peso	19.8	20.6	18.3	21.4

39. Events after the Balance Sheet date

On 1 September 2005, the Group announced its intention to sell Europe Beverages. On 21 November 2005, the Group received a binding offer to buy the business from a consortium acting on behalf of the funds managed by Blackstone Group International and Lion Capital LLP. The transaction was conditional upon receiving European Union regulatory approval.

The sale completed on 2 February 2006 for gross proceeds of €1.85 billion (£1.26 billion). Net proceeds after tax and expenses are expected to be £1.15 billion and we anticipate reporting a profit on disposal in 2006 of around £480 million. The proceeds from the disposal will be used to reduce the Group's borrowings and to increase the funding of our defined benefit pension schemes. In accordance with IFRS 5, Europe Beverages has been classified as a discontinued operation in these financial statements. The results of Europe Beverages are included as discontinued operations in the consolidated income statement and the assets and liabilities are classified as held for sale in the consolidated balance sheet as described in Note 32.

On 1 March 2006, the Group announced its intention to repurchase a proportion of the outstanding £400 million 4.875% Sterling Notes due 2010. It is expected that on 14 March 2006 a repurchase of £323 million will take place.

40. Explanation of transition to IFRS

In 2004, Cadbury Schweppes prepared its consolidated financial statements under UK generally accepted accounting principles (“UK GAAP”). With effect from 3 January 2005, Cadbury Schweppes is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”). One year of comparative IFRS financial information is required to be provided for the year ended 2 January 2005 (“2004”) and consequently, the date of transition to IFRS for the Group is 29 December 2003 being the first day of the comparative period (“the transition date”).

An explanation of the effect that the adoption of IFRS has had on the Group’s results is provided in Part (a).

Part (b) includes reconciliations of the UK GAAP financial information for the year ended 2 January 2005.

The change in reporting principally impacts the following areas: goodwill amortisation; share awards; pensions and deferred tax. Under IFRS, the 2004 underlying profit from operations (excluding brand intangible/goodwill amortisation/impairment, restructuring costs and non-trading items) is 4% lower and the underlying earnings are 6% lower than under UK GAAP. Under IFRS, the 2004 net assets are £788 million lower than under UK GAAP. This is due to full inclusion of the pension fund deficit and the provision of deferred tax in relation to brand intangibles arising from past acquisitions.

(a) Significant differences between UK GAAP and IFRS

The significant differences between UK GAAP and IFRS impacting the results and net assets of Cadbury Schweppes are described below. These differences affect the 2004 comparative information and, unless otherwise stated, have been applied retrospectively in arriving at the transition balance sheet under IFRS.

• Share-based payments

Cadbury Schweppes uses share awards to provide incentives to employees and encourage a strong ownership culture within management. Details of the share awards used by the Group can be found in Note 26 on page 120. Under UK GAAP, Cadbury Schweppes recorded a charge for employee share incentive awards based on the intrinsic value of the award being the difference, if any, between the option price of the conditional award and the share price on the date of grant. Cadbury Schweppes utilised the exemption available within UITF Abstract 17 from reporting a charge to profits for UK Inland Revenue approved SAYE schemes and equivalent overseas schemes. As the Group’s share options have an option price equal to the market price on the date of grant no charge was required to be recorded under UK GAAP. Consequently, the Group charge in respect of share awards under UK GAAP was relatively small and reflected the cash cost of providing share awards to its employees.

IFRS 2 “Share based payments” requires the Group to record a charge for all share-based payments equivalent to the fair value of the award as at the date of grant. An expense is recognised to spread the fair value of each award over its vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. As permitted by the standard, the Group has applied IFRS 2 to all unvested share awards as at the transition date.

The Group has calculated fair values for each of its employee incentive share awards. The calculation of fair values requires Management to select the option valuation model which they consider to be the most appropriate for the valuation of each type of award. The key variables in arriving at the share option charge are the expected future volatility in the Cadbury Schweppes share price, the expected period of time between grant and exercise for an award and the expected level of forfeiture that will occur between award grant and vesting.

The application of IFRS 2 instead of UK GAAP has resulted in an incremental charge to profits in 2004 of £29 million.

• Post Employment Benefits

Under UK GAAP, Cadbury Schweppes accounted for post employment benefits under SSAP 24 “Accounting for Pension costs”. This standard seeks to spread the cost of providing defined benefit pensions and post retirement benefits over the estimated average remaining service life of the scheme members based upon a triennial valuation.

Under IFRS, the Group is required to calculate the pension cost for defined benefit pension schemes and other post employment benefits using a Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. The Group has applied the option within the Amendment to IAS 19 that allows for immediate recognition of all actuarial gains and losses in the period in which they occur, outside of profit and loss and presented in the Statement of Recognised Income and Expense (“SORIE”). This approach is very similar to the current UK GAAP standard FRS 17 “Retirement Benefits”.

Accounting for defined contribution pension schemes under IFRS is consistent with the previous accounting applied under UK GAAP.

The Group intends to present the current and past service pension costs as a charge to Profit from Operations. The unwinding of the discount on pension liabilities and the expected return on pension assets will be presented as a financing item.

The immediate recognition of the Group’s pension liabilities on the balance sheet results in the recognition of a liability of £410 million in the balance sheet at the date of transition. This is an incremental liability of £337 million compared with that recorded under SSAP 24. As at 2 January 2005 this deficit had increased to £485 million primarily due to changes in actuarial assumptions.

40. Explanation of transition to IFRS continued

The application of IAS 19 to the Group's results for 2004 reduces profit from operations by £15 million and reduces the net financing charge by £9 million resulting in an increase in the underlying incremental charge of £6 million.

• **Goodwill/brand intangibles amortisation**

Under UK GAAP, goodwill is amortised over its estimated life, which is normally 20 years. Brand intangibles are amortised over their estimated useful life. Under UK GAAP, the significant majority of the Group's brands were deemed to have an indefinite life and were not amortised, instead being subject to an annual impairment review. The goodwill and brand intangibles amortisation charge in 2004 was £139 million.

Under IFRS 3 "Business Combinations", goodwill is considered to have an indefinite life and hence is not subject to amortisation. Instead it is reviewed for impairment annually. Intangible assets continue to be amortised over their estimated useful economic life. Under IFRS, the significant majority of the Group's brands continue to be deemed to have an indefinite life and are not amortised. These will continue to be subject to an annual impairment review.

The application of IFRS 3 to the results of the Group for 2004 increases reported earnings by £132 million. As goodwill amortisation is excluded from the Group's underlying performance measures, there is no impact on underlying profit from operations or earnings. The residual amortisation charge reflects amortisation of certain brands which consistent with UK GAAP are deemed to have a definite life.

• **Deferred tax**

Under UK GAAP, the Group recognised deferred tax on temporary differences that arose from the inclusion of gains and losses in tax assessments in periods different from those in which they were recognised in the financial statements (an income statement approach).

Under IAS 12 "Deferred tax", deferred tax is recognised in respect of nearly all taxable temporary timing differences arising between the tax base and the accounting book value of balance sheet items (a balance sheet approach). This results in deferred tax being recognised on certain temporary differences that would not have given rise to deferred tax under UK GAAP.

Under IFRS, a deferred tax balance is recognised in a business combination for any difference between the fair value of an acquired asset and its equivalent tax basis. Over the last ten years Cadbury Schweppes has acquired a number of brand businesses and consequently recognised brand intangibles of over £3 billion. A number of these acquisitions were structured as a purchase of shares and therefore the brand intangible that was recognised for accounting purposes has no equivalent tax basis. The Group has therefore recognised an incremental deferred tax liability of £711 million. As a business combination does not directly affect profits, no equivalent adjustment is required under the income statement approach required by UK GAAP.

Normally, the recognition of such a deferred tax liability in a business combination would result in a corresponding increase in goodwill. However, under the exemption applied within IFRS 1 relating to the restatement of business combinations, the Group is not permitted to adjust the carrying value of goodwill prior to the transition date. Consequently, the recognition of the liability has resulted in an equivalent reduction in reserves. This deferred tax liability will only crystallise on any subsequent disposal, amortisation or impairment of the brands. As the majority of the Group's brands are not amortised, the crystallisation of the deferred tax liability is not expected in the near future.

In addition, deferred taxation has been provided, where appropriate as a result of other IFRS transition adjustments, principally recoverable deferred tax assets in respect of the full recognition of pension deficits.

• **Restructuring costs**

The Group classifies the costs of expenses associated with the implementation of its four year Fuel for Growth programme as Restructuring costs, outside of the Group's underlying results. In 2004, certain Fuel for Growth related redundancies resulted in the crystallisation of a pension liability of £4 million that was not fully provided for under SSAP 24. The full recognition of all pension deficits under IFRS at the transition date has led to the reversal of this charge.

• **Associates and Joint Ventures**

Under UK GAAP, associates were accounted for under the equity method with the Group's share of associates' interest and tax included within the headings of interest and tax in the profit and loss account.

Under IFRS, the Group will continue to account for associates and joint ventures using the equity method and no significant differences have arisen in the accounting policies of the Group's associates or joint ventures as a result of the adoption of IFRS. However, the presentation of the results from these entities will change, as the net result from associates and joint ventures after interest and tax is presented as a single line within the Group's profit before taxation.

This presentational change has no impact on earnings but in 2004 has resulted in a reduction in profit before financing and taxation of £23 million with an offsetting reduction in the financing charge of £12 million and in the taxation charge of £11 million.

• **Dividends payable**

Under UK GAAP, the Group recognised a liability for dividends that were proposed in respect of a prior accounting period, even if the formal authorisation of the dividend did not take place until after the year-end.

In accordance with IAS 10 “Events after the Balance Sheet Date”, dividends declared after the balance sheet date are not recognised as a liability in the financial statements, as there is no present obligation at the balance sheet date.

Accordingly, no accrual is required for the final dividend declared for 2003 of £168 million and for 2004 of £177 million.

• **Development costs**

Under UK GAAP, the Group elected to expense all development costs as incurred.

Under IAS 38, the Group is required to assess whether any development costs meet the criteria for capitalisation. If the criteria are met, capitalisation is mandatory and the capitalised amounts are amortised to profit over their expected useful lives.

Cadbury Schweppes has undertaken a review of its research and development costs and concluded that the amount of its development costs that fall to be capitalised under IAS 38 is insignificant, as the majority of such costs are incurred prior to the point at which the Group has a technologically viable product from which economic benefits are probable to occur.

• **Financial Instruments including commodity contracts**

Under the transitional requirements of IFRS the Group is permitted to continue to apply the hedging requirements of UK GAAP in the preparation of its 2004 comparative IFRS financial statements. The Group has elected to apply this exemption and hence the adoption of IFRS has no impact on accounting for financial instruments, including commodity contracts, for 2004.

(b) Reconciliation of income statement and equity from UK GAAP

Consolidated Income Statement

For the 53 weeks ended 2 January 2005	UK GAAP IFRS format £m	Goodwill £m	Share based payments £m	Pensions £m	Associates £m	Other £m	Restated IFRS £m
Revenue	6,738	–	–	–	–	–	6,738
Trading costs	(5,623)	–	(29)	(15)	–	(1)	(5,668)
Restructuring costs	(171)	–	–	4	–	1	(166)
Amortisation and impairment of intangibles	(139)	132	–	–	–	–	(7)
Non-trading items	19	–	–	–	–	–	19
Profit from Operations	824	132	(29)	(11)	–	–	916
Share of result in associates	44	–	–	–	(23)	–	21
Profit before Financing and Taxation	868	132	(29)	(11)	(23)	–	937
Investment revenue	39	–	–	9	–	–	48
Finance costs	(265)	–	–	–	12	–	(253)
Profit before Taxation	642	132	(29)	(2)	(11)	–	732
Taxation	(189)	(4)	–	(2)	11	(1)	(185)
Attributable Profit for the Period	453	128	(29)	(4)	–	(1)	547

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Notes to the Financial Statements continued

40. Explanation of transition to IFRS continued

(b) Reconciliation of income statement and equity from UK GAAP continued

Consolidated Balance Sheet

As at 2 January 2005	UK GAAP IFRS format £m	Goodwill/ Intangibles £m	Software £m	Pensions £m	Deferred tax £m	Dividends £m	Other £m	Restated IFRS £m
Assets								
Non-current assets								
Goodwill	2,224	128	–	–	–	–	–	2,352
Brand intangibles	3,261	–	–	–	–	–	–	3,261
Software intangibles	–	–	144	–	–	–	–	144
Property, plant and equipment	1,608	–	(144)	–	–	–	–	1,464
Investment in associates	324	–	–	–	(2)	–	2	324
Deferred tax assets	17	–	–	–	–	–	–	17
Trade and other receivables	67	–	–	–	–	–	–	67
Other investments	11	–	–	–	–	–	–	11
	7,512	128	–	–	(2)	–	2	7,640
Current assets								
Inventories	708	–	–	–	–	–	1	709
Short-term investments	21	–	–	–	–	–	–	21
Trade and other receivables	1,152	–	–	–	–	–	(2)	1,150
Tax recoverable	30	–	–	–	–	–	–	30
Cash and cash equivalents	325	–	–	–	–	–	–	325
	2,236	–	–	–	–	–	(4)	2,235
Assets held for sale	5	–	–	–	–	–	–	5
Total Assets	9,753	128	–	–	(2)	–	1	9,880
Liabilities								
Current liabilities								
Trade and other payables	(1,731)	–	–	–	–	177	8	(1,546)
Tax payable	(150)	–	–	–	–	–	–	(150)
Short-term borrowings and overdrafts	(610)	–	–	–	–	–	–	(610)
Short-term provisions	(69)	–	–	–	–	–	2	(67)
Obligations under finance leases	(20)	–	–	–	–	–	–	(20)
	(2,580)	–	–	–	–	177	10	(2,393)
Non-current liabilities								
Trade and other payables	(27)	–	–	–	–	–	–	(27)
Borrowings	(3,520)	–	–	–	–	–	–	(3,520)
Retirement benefit obligation	(65)	–	–	(420)	–	–	–	(485)
Tax payable	(184)	–	–	–	–	–	–	(184)
Deferred tax liabilities	(213)	(4)	–	39	(717)	–	–	(895)
Long-term provisions	(10)	–	–	–	–	–	–	(10)
Obligations under finance leases	(66)	–	–	–	–	–	–	(66)
	(4,085)	(4)	–	(381)	(717)	–	–	(5,187)
Total Liabilities	(6,665)	(4)	–	(381)	(717)	177	10	(7,580)
Net Assets	3,088	124	–	(381)	(719)	177	11	2,300

Consolidated Balance Sheet

As at 29 December 2003	UK GAAP IFRS format £m	Goodwill/ Intangibles £m	Software £m	Pensions £m	Deferred tax £m	Dividends £m	Other £m	Restated IFRS £m
Assets								
Non-current assets								
Goodwill	2,384	–	–	–	–	–	–	2,384
Brand intangibles	3,443	–	–	–	–	–	–	3,443
Software intangibles	–	–	177	–	–	–	–	177
Property, plant and equipment	1,624	–	(177)	–	–	–	–	1,447
Investment in associates	313	–	–	–	(2)	–	3	314
Deferred tax assets	20	–	–	–	–	–	–	20
Trade and other receivables	81	–	–	–	–	–	–	81
Other investments	15	–	–	–	–	–	–	15
	7,880	–	–	–	(2)	–	3	7,881
Current assets								
Inventories	672	–	–	–	–	–	1	673
Short-term investments	127	–	–	–	–	–	–	127
Trade and other receivables	1,189	–	–	–	–	–	(5)	1,184
Tax recoverable	32	–	–	–	–	–	–	32
Cash and cash equivalents	306	–	–	–	–	–	–	306
	2,326	–	–	–	–	–	(4)	2,322
Assets held for sale	9	–	–	–	–	–	–	9
Total Assets	10,215	–	–	–	(2)	–	(1)	10,212
Liabilities								
Current liabilities								
Trade and other payables	(1,796)	–	–	–	–	168	7	(1,621)
Tax payable	(181)	–	–	–	–	–	–	(181)
Short-term borrowings and overdrafts	(1,065)	–	–	–	–	–	–	(1,065)
Short-term provisions	(117)	–	–	–	–	–	–	(117)
Obligations under finance leases	(4)	–	–	–	–	–	–	(4)
	(3,163)	–	–	–	–	168	7	(2,988)
Non-current liabilities								
Other liabilities	(15)	–	–	–	–	–	–	(15)
Borrowings	(3,564)	–	–	–	–	–	–	(3,564)
Retirement benefit obligation	(73)	–	–	(337)	–	–	–	(410)
Tax payable	(108)	–	–	–	–	–	–	(108)
Deferred tax liabilities	(244)	–	–	40	(749)	–	–	(953)
Long-term provisions	(14)	–	–	–	–	–	–	(14)
Obligations under finance leases	(11)	–	–	–	–	–	–	(11)
	(4,029)	–	–	(297)	(749)	–	–	(5,075)
Total Liabilities	(7,192)	–	–	(297)	(749)	168	7	(8,063)
Net Assets	3,023	–	–	(297)	(751)	168	6	2,149

The adoption of IFRS required a re-presentation of the Cash Flow statement but did not affect the cash flows of the Group.

41. IAS 39 Transition balance sheet

The Group adopted IAS 32 'Financial Instruments: presentation and disclosure' and IAS 39 'Financial Instruments: recognition and measurement' from 3 January 2005. In the preparation of its financial statements in accordance with IFRS for the year ended 2 January 2005, the Group continued to apply the hedge accounting rules of UK GAAP, taking advantage of the exemption available within IFRS 1 'First time adoption of IFRS'.

The Group is required to recognise transitional adjustments in accounting for its financial instruments in accordance with the measurement requirements of IAS 39 at 3 January 2005.

Although the Group has taken the decision not to hedge account for a number of its hedging arrangements, it is deemed to have hedge accounted under UK GAAP until 2 January 2005 and discontinued hedge accounting prospectively thereafter. IFRS1 requires the Group to recognise various transitional adjustments to account for those hedging relationships at 3 January 2005. The accounting for those hedging relationships at transition depends on the nature of the hedged item and the hedged risk. Detailed below is a reconciliation between the IFRS restated balance sheet as at 2 January 2005 applying prior GAAP hedge accounting and the balance sheet after the adoption of both IAS 32 and IAS 39.

Certain of the Group's interest rate swaps, including cross currency interest rate swaps, that were previously accounted for as fair value hedges of borrowings under UK GAAP were not previously measured at fair value. In these cases, the difference between the derivative's fair value and its previously reported carrying value has been recognised directly in opening retained earnings. Changes in the fair value of the underlying hedged debt due to the hedged risk that was previously not recognised have also been recognised in opening retained earnings. Adjustments to underlying hedged debt will be recognised in future earnings on an amortised cost basis.

Other interest rate swaps, currency and commodity contracts that were previously accounted for as cash flow hedges of forecasted transactions under UK GAAP were not previously measured at fair value. In these circumstances, the difference between the derivative's fair value and its previously reported carrying value has been recognised directly in equity. In the case of settled commodity contracts, previously deferred gains and losses have been re-allocated to equity. These deferred gains or losses will be recognised in future earnings at the time at which the hedged forecasted transaction is recognised.

Those swaps and currency contracts that were considered to be non-qualifying hedging instruments at the date of transition have been recognised at fair value with the difference between its fair value and its previously reported carrying value being recognised directly in opening retained earnings. Additionally the Group has recognised the fair value of embedded derivatives found within certain of its supply contracts in opening retained earnings.

All derivative instruments will continue to be recognised on balance sheet at fair value with future gains and losses being recognised immediately in earnings, except when the hedging requirements of IAS 39 are met.

Restatement of consolidation balance sheet to include IAS 32 and IAS 39

As at 2 January 2005

	Restated IFRS £m	IAS 39 transition adjustment £m	Restated IFRS including IAS 39 adjustments £m
Assets			
Non-current assets	7,640	–	7,640
Current assets			
Inventories	709	–	709
Short-term investments	21	–	21
Trade and other receivables	1,150	71	1,221
Tax recoverable	30	–	30
Cash and cash equivalents	325	–	325
	2,235	71	2,306
Assets held for sale	5	–	5
Total Assets	9,880	71	9,951
Liabilities			
Current liabilities			
Trade and other payables	(1,546)	(90)	(1,636)
Tax payable	(150)	–	(150)
Short-term borrowings and overdrafts	(610)	23	(587)
Short-term provisions	(67)	–	(67)
Obligations under finance leases	(20)	–	(20)
	(2,393)	(67)	(2,460)
Non-current liabilities			
Trade and other payables	(27)	–	(27)
Borrowings	(3,520)	(26)	(3,546)
Retirement benefit obligations	(485)	–	(485)
Tax payables	(184)	–	(184)
Deferred tax liabilities	(895)	(4)	(899)
Long-term provisions	(10)	–	(10)
Obligations under finance leases	(66)	–	(66)
Derivative financial instruments			
	(5,187)	(30)	(5,217)
Total Liabilities	(7,580)	(97)	(7,677)
Net Assets	2,300	(26)	2,274
Equity			
Share capital	259	–	259
Share premium account	1,098	–	1,098
Other reserves	(168)	(8)	(168)
Retained earnings	882	(18)	856
Equity attributable to equity holders of the parent	2,071	(26)	2,045
Minority interest	229	–	229
Total Equity	2,300	(26)	2,274

42. Summary of differences between IFRS and US Generally Accepted Accounting Principles

From 3 January 2005, the Group has prepared its consolidated financial statements in accordance with IFRS as adopted by the European Union (EU) (see Note 40). IFRS differs in certain respects from US generally accepted accounting principles (US GAAP). Set out below is a summary of the significant differences and related adjustments to reconcile consolidated profit for the financial period and consolidated shareholders' equity under IFRS to US GAAP.

IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the periods presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

As a result of the Group's transition to IFRS on 29 December 2003, the reconciliations of net income and net equity for 2004 published in previous periods have been amended to reflect the restated consolidated profit and shareholders' equity reported in the Consolidated Income Statement and Consolidated Balance Sheet.

Under the IFRS transition provisions within the Securities and Exchange Commission's Form 20-F requirements, the Group is permitted to provide two years of comparable financial information under IFRS and reconciliations to US GAAP for the periods presented.

Effects on profit of differences between IFRS and US generally accepted accounting principles

Notes	2005 £m	2004 £m
Profit for the period (under IFRS)	776	547
Attributable to Minority interests	(11)	(22)
Profit for the period attributable to Equity holders of the parent	765	525
US GAAP adjustments:		
42(b) Intangible amortisation	(22)	(26)
42(i) Restructuring	–	(24)
42(c) Interest capitalised	8	7
42(c) Depreciation of capitalised interest	(4)	(3)
42(g) Retirement benefits	(55)	(19)
42(h) Disposal gain adjustments	(3)	–
42(d) Derivatives	24	15
42(j) Employee share arrangements	–	18
42(k) Deconsolidation of variable interest entity	(9)	17
42(e) Taxation on above adjustments	(82)	(26)
Net income (under US GAAP)	622	484
In respect of:		
Continuing operations	561	430
Discontinued operations	61	54
	622	484

Except as discussed in Note 42 (k) the minority share of IFRS to US GAAP adjustments is not material. US GAAP adjustments in respect of discontinued operations were a charge of £12 million (2004: £4 million credit). The adjustments reflected the effects of interest capitalisation and restructuring costs. In addition, in 2005, an US GAAP adjustment was recorded to reverse a deferred tax credit arising on the intra-group transfer of intellectual property assets recorded under IFRS.

Earnings per ADR under US GAAP

	2005 £ per ADR	2004 £ per ADR
Earnings per ADR – from continuing operations		
Basic	1.10	0.84
Diluted	1.08	0.84
Earnings per ADR – from discontinued operations		
Basic	0.12	0.11
Diluted	0.12	0.11

	2005 million	2004 million
Average number of ADRs – Basic	513	507
Average number of ADRs – Diluted	519	510

See Note 13 for a reconciliation of shares used in the Basic and Diluted EPS calculations. Each ADR represents four ordinary shares.

Cumulative effect on Shareholders' Equity of differences between IFRS and US generally accepted accounting principles

	2005 £m	2004 £m
Total Equity (under IFRS)	3,035	2,300
Minority Interest	(27)	(229)
Equity attributable to equity holders of the parent	3,008	2,071
US GAAP adjustments:		
42(a), (b) Goodwill and intangibles	958	957
42(g) Retirement benefits	220	349
42(g) Recognition of additional minimum pension liability	(53)	(120)
42(i) Restructuring	12	12
42(c) Interest capitalisation	34	29
42(f) Property revaluations	(59)	(59)
42(d) Derivatives	–	(58)
Other	6	3
42(e) Taxation on above adjustments	562	585
Total shareholders' Equity (under US GAAP)	4,688	3,769

Except as discussed in Note 42 (k) the minority share of IFRS to US GAAP adjustments is not material.

US GAAP Statements of Income

Statements of Income presented in accordance with US GAAP using US GAAP measurement principles for the two years ended 1 January 2006 are set out below:

	2005 £m	2004 £m
Revenue	6,508	6,085
Cost of sales	(3,074)	(2,574)
Gross profit	3,434	3,511
Selling, general and administrative expenses	(2,419)	(2,572)
Restructuring costs	(72)	(163)
Non-trading items	22	18
Intangible amortisation	(28)	(33)
Operating income	937	761
Interest expense	(218)	(221)
Interest income	31	39
Income before income taxes	750	579
Income taxes	(212)	(168)
Minority interest charges	(5)	(3)
Earnings from unconsolidated affiliates (net of tax)	28	22
Income from continuing operations	561	430
Discontinued operations (net of tax)	61	54
Net income	622	484

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Notes to the Financial Statements continued

US GAAP Balance Sheet

A summary balance sheet presented in accordance with US GAAP using US GAAP measurement principles is set out below:

	2005 £m	2004 £m
Assets		
Cash and cash equivalents	332	325
Short-term investments	47	21
Account receivables – trade (net of allowance for doubtful debts)	862	915
Inventories	713	702
Deferred income taxes	142	80
Prepaid expenses and other	439	266
Total current assets	2,535	2,309
Property, plant & equipment	1,567	1,600
Goodwill	4,437	4,565
Other intangibles	1,870	2,009
Equity method investments	372	324
Deferred income taxes	19	19
Other assets	72	113
Assets held for sale	1,097	–
Total assets	11,969	10,939
Liabilities and Shareholders' Equity		
Accounts payable	591	618
Accrued liabilities	1,036	983
Accrued income taxes	375	334
Deferred income taxes	53	26
Short-term debt	560	621
Current portion of long-term debt	654	253
Total current liabilities	3,269	2,835
Long-term debt	3,029	3,598
Other long-term liabilities	288	356
Deferred income taxes	376	360
Liabilities directly associated with assets classified as held for sale	292	–
Total liabilities	7,254	7,149
Minority interests	27	21
Total shareholders' equity	4,688	3,769
Net liabilities and shareholders' equity	11,969	10,939

The following table is a reconciliation of the movement in shareholders' equity as reported under US GAAP for the financial year:

	£m
At 29 December 2003	3,669
Net income under US GAAP	484
Dividends reported under US GAAP	(246)
Currency translation adjustment (net of tax)	(192)
New share capital issued	25
Employee share arrangements	53
Minimum pension liability (net of tax)	(24)
At 2 January 2005	3,769
Net income under US GAAP	622
Dividends reported under US GAAP	(260)
Currency translation adjustment (net of tax)	358
New share capital issued	37
Employee share arrangements	95
SFAS 133 transition adjustment (net of tax)	12
Minimum pension liability (net of tax)	55
At 1 January 2006	4,688

(a) Goodwill

Prior to 1998 the Group wrote off acquisition goodwill against reserves in the balance sheet in the year of acquisition. From 1998 to 2003, acquired goodwill was capitalised and its subsequent measurement (via annual impairment review or annual amortisation charge) was determined based on the individual circumstances of each business acquired. A portion of the goodwill capitalised from 1998 to 2003, related to associates, was not amortised under UK GAAP. Upon IFRS adoption, the Group exercised the exemption available under IFRS 1 "First time Adoption of IFRS" not to restate business combinations prior to the date of transition of the Group's reporting GAAP from UK GAAP to IFRS and as a consequence such goodwill is permanently written-off against reserves. Since 29 December 2003, amortisation on goodwill ceased. Acquired goodwill continues to be capitalised, but is not amortised. Under IFRS, goodwill is reviewed for potential impairment where there is an indication that an impairment may have occurred or else annually. Any impairment is measured by comparing the carrying value of goodwill for each Cash Generating Unit (CGU) with their recoverable amount. Any impairment is recognised immediately in the Consolidated Income Statement, within Profit from Operations.

For the purposes of US GAAP, all goodwill written off against reserves under IFRS is reinstated as an asset on the balance sheet. Under US GAAP, for periods ending on or before 30 December 2001, goodwill was amortised on a straight-line basis over the useful economic life, not to exceed 40 years. Effective 31 December 2001, the Group adopted SFAS 142, "Goodwill and Other Intangible Assets". The statement requires that goodwill not be amortised but rather be tested at least annually for impairment. The Group carries out an annual impairment review of goodwill as at the year-end date.

Under US GAAP impairment reviews are carried out at the reporting unit level, which are sub-divisions of the Group's reporting segments. The impairment review process compares the fair value of each reporting unit to its carrying value, including the associated goodwill. The fair value of each reporting unit is valued using a discounted cash flow methodology. These cash flows are discounted at rates that management estimate to be the risk affected average cost of capital for the particular businesses. If the carrying value of the reporting unit exceeds the fair value, the Group performs an additional step to calculate the total amount of the goodwill impairment. This second step involves allocating the fair value of the reporting unit to the assets and liabilities of the reporting unit including any unrecognised intangible assets. An impairment charge is recognised to the extent that the carrying amount of the goodwill exceeds any residual unallocated fair value.

An historic reconciling adjustment in Shareholders' Equity exists reflecting the different accounting for goodwill prior to 29 December 2003. No impairments have been identified under either IFRS or US GAAP in 2005 or 2004. Consequently, there is no reconciling item in the Consolidated Income Statement.

The following table provides a reconciliation of the Group's US GAAP goodwill during 2005:

	Americas Beverages £m	Americas Confectionery £m	EMEA £m	Europe Beverages £m	Asia Pacific £m	Total £m
Book value at beginning of year (restated)	1,886	1,007	899	426	347	4,565
Exchange rate adjustments	208	86	9	(92)	13	224
Goodwill acquired	–	–	8	1	1	10
Adjustments pursuant to completion of purchase price allocation	–	–	–	–	(4)	(4)
Disposals	(3)	–	(20)	–	–	(23)
Transfers to assets held for sale	–	–	–	(335)	–	(335)
Book value at end of year	2,091	1,093	896	–	357	4,437

The prior year analysis of goodwill and intangible assets resulted in an amount that was classified as intangible assets rather than goodwill. A reclassification out of intangible assets into goodwill has been made in the US GAAP balance sheet.

b) Intangible assets

Under IFRS, the cost of brands acquired must be capitalised and, if the life of the asset is deemed to be indefinite, no amortisation or writedown is required unless there is an impairment in value below cost. On at least an annual basis, the Group reviews non-amortised identifiable intangible assets for possible impairment using an estimate of the related discounted cash flows in measuring whether the asset is recoverable.

Under US GAAP, an intangible asset in a business combination should be recognised (i) if it arises from contractual rights or other legal rights (regardless of whether those rights are transferable or separable from the acquired entity or from other legal rights or obligations) or (ii) it is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or otherwise exchanged. Under US GAAP, intangible assets that have indefinite useful lives are not amortised but are tested at least annually for impairment. Intangible assets that have finite lives are amortised over their useful lives.

Customer relationships, acquired with Adams meet the definition of an intangible asset under US GAAP but did not meet the requirement to be capitalised as an intangible under UK GAAP. As the Group exercised the IFRS 1 exemption not to restate business combinations the item is treated as goodwill under IFRS. Consequently, these customer relationships are transferred from goodwill to intangibles for the purposes of US GAAP reporting. As these intangibles are deemed to have a definite life an amortisation charge is recorded under US GAAP that is not present under IFRS.

In addition, as a result of historical differences between IFRS and US GAAP relating to the amortisation policy of intangible assets, at 29 December 2003, an on-going reconciling adjustment in Shareholders' Equity exists.

42. Summary of differences between IFRS and US Generally Accepted Accounting Principles continued

(b) Intangible assets continued

The following table provides a reconciliation of the Group's US GAAP intangible assets during 2005:

	Indefinite life brands £m	Definite life brands £m	Other definite life intangibles £m	Total £m
Cost at beginning of year	2,080	23	242	2,345
Accumulated amortisation at beginning of year	(288)	(8)	(40)	(336)
Book value at beginning of year (restated)	1,792	15	202	2,009
Exchange rate adjustments	183	5	25	294
Reallocation to definite life brands	(10)	10	–	–
Reallocation from goodwill	–	–	–	–
Acquisitions	25	–	–	25
Amortisation	–	(6)	(22)	(28)
Transfers to assets held for sale	(349)	–	–	(349)
Book value at end of year	1,641	24	205	1,870

The book value at the end of the year is analysed below:

	Indefinite life brands £m	Definite life brands £m	Other definite life intangibles £m	Total £m
Cost at end of year	1,929	38	267	2,234
Accumulated amortisation at end of year	(288)	(14)	(62)	(364)
Book value at end of year	1,641	24	205	1,870

The weighted average amortisation period for the definite life intangibles is 20 years (2004: 20 years). The total amortisation charge expected under US GAAP in 2006 is £26 million. As a consequence of the pattern of the amortisation applied this annual charge will fall in each of the following four years, to be approximately £20 million in 2009. The principal component of other definite life intangibles relates to customer relationships.

(c) Interest capitalisation

Under IFRS, the capitalisation of interest is optional and the Group does not capitalise such interest. Under US GAAP interest is required to be capitalised on capital construction projects and amortised over the life of the asset.

(d) Derivative instruments

Under IFRS, certain derivative instruments were not required to be recognised on the balance sheet at fair value until 3 January 2005. At this date, the Group adopted IAS 39 under IFRS on a prospective basis, requiring recognition of all derivative instruments at fair value on the balance sheet. Under IFRS, the Group has not applied hedge accounting to all of its derivative instruments. Therefore, movements in the fair value of such derivatives are reflected in the Consolidated Income Statement as a component of Finance cost.

Under US GAAP, consistent with IFRS, all derivatives are recorded in the financial statements at fair value. Since the Group has not designated its derivatives as hedges all movements in the fair value of derivatives are reflected in the Consolidated Income Statement as a component of Interest expense. However, since US GAAP has required derivatives to be held on the balance sheet at fair value since 1 January 2001, there is an adjustment of £58 million included in shareholders' equity under US GAAP as at 29 December 2003 and a gain of £15 million recognised as a reconciling item between profit under IFRS and US GAAP in 2004. Subsequent to 3 January 2005, the only difference in the accounting for derivatives under IFRS and US GAAP is the unwinding of the transition accounting upon initial adoption of SFAS 133 and IAS 39, resulting in a gain of £24 million recognised as a reconciling item between profit under IFRS and US GAAP in 2005.

(e) Deferred taxation

The fundamental basis of recognising deferred taxes is the similar under both IFRS and US GAAP, however certain detailed differences exist.

Under IFRS, deferred tax is based on tax rates and laws that have been enacted, or substantively enacted. For US GAAP, only tax rates and laws that have been enacted are taken into account. In addition under IFRS, deferred tax is recognised on the difference between the carrying amount determined using the historical rate of exchange and the balance sheet date exchange rate. Under US GAAP, no deferred tax is recognised for differences related to assets and liabilities that are remeasured from local currency into the functional currency resulting from changes in exchange rates. These differences have not resulted in material differences in 2005 and 2004, and as a consequence there is no reconciling item between IFRS and US GAAP.

Under IFRS, deferred tax is recognised on intra-group transfers of assets and liabilities, including transfers of intellectual property assets. Under US GAAP the recognition of deferred tax on such transactions is not permitted. In 2005, a deferred tax credit that was recorded under IFRS on an intra-group transfer of assets was reversed in arriving at US GAAP.

For US GAAP, deferred tax assets for share awards are recorded based on the recorded compensation expense. Under IFRS deferred tax assets are recognised based on the intrinsic gain at the year-end. The amount recognised in the Income Statement is capped at the tax effected share award charge, with any excess being recognised directly through reserves.

A historic difference related to the deferred tax on intangible assets remains after the transition to IFRS. Under UK GAAP residual payments on certain acquisitions were classified as brand intangibles. Under US GAAP these were treated as goodwill. Under IFRS, the UK GAAP classification was maintained resulting in the recognition of deferred tax liabilities on these brand intangibles. Under US GAAP, no deferred tax liability was recognised as these non-tax deductible amounts were classified as goodwill.

In addition, deferred taxation has been provided on accounting GAAP differences between IFRS and US GAAP.

Under IFRS, the Group must disclose the gross deferred tax assets and liabilities as non-current. Under US GAAP deferred taxes are classified between current and non-current portion, depending on the items they relate to, disclosed separately and presented on a net basis, by tax jurisdiction.

The analysis of the deferred taxes under US GAAP is as follows:

	2005 £m	2004 £m
Current		
Short-term temporary differences – assets	(149)	(197)
Short-term temporary differences – liabilities	52	137
	(97)	(60)
Non Current		
Operating losses carried forward	(177)	(136)
Fixed asset temporary differences	88	62
Intangible temporary differences	289	299
	200	225
Total temporary differences	103	165
Valuation allowances	165	124
Net deferred tax liability	268	289

The movement in the valuation allowance during the year is set out below:

	£m
At 2 January 2005	124
Exchange rate adjustments	10
Creation of tax losses	31
At 1 January 2006	165

(f) Property revaluations

On transition to IFRS, the Group has exercised the exemption available under IFRS 1 “First time Adoption of IFRS” to treat the depreciated revalued cost of properties which were revalued under historical UK GAAP up to 1999 as the deemed cost. These revaluations were not permitted under US GAAP and remain a difference between IFRS and US GAAP.

42. Summary of differences between IFRS and US Generally Accepted Accounting Principles continued

(g) Retirement benefits

Under IFRS, the Group recognises the full deficit, calculated using a projected unit credit method, of its post-retirement employee benefits in its consolidated financial statements using a 1 January 2006 measurement date.

Under US GAAP, the costs of providing these benefits are also calculated using the projected unit credit method, however a 30 September 2005 measurement date has been applied. Under US GAAP actuarial gains and losses are amortised over the remaining expected service life of the scheme members. For the purposes of amortising gains and losses, the 10% corridor has been adopted, and the market-related value of assets recognises realised and unrealised capital gains and losses over a rolling three year period. As this results in differing assets from IFRS, different expected returns on assets arise. In addition, under US GAAP, a minimum pension liability is recognised, as a component of other comprehensive income, in certain circumstances when there is a deficit of plan assets relative to the accumulated benefit obligations.

In 2005, the higher US GAAP charge reflects the recognition of net actuarial losses in prior years, lower expected asset returns as a consequence of applying the market related value approach and the initial recognition of liabilities for an insignificant scheme. Additionally, the shareholders equity reconciliation has been affected by the movement in the Additional Minimum Liabilities for certain of the Group's plans.

The major retirement plans as detailed in Note 18, are reviewed in accordance with Statement of Financial Accounting Standard ("SFAS") 87, annually and the disclosures below have been presented in accordance with SFAS 132. Where appropriate, additional pension charges in respect of curtailment or settlement events, have been calculated in accordance with SFAS 88. Post retirement medical benefit plans are assessed annually for materiality. Amounts for these plans were not significant and consequently have not been separately disclosed.

The net periodic pension cost for the major plans under SFAS 87 and SFAS 88 was made up as follows:

	2005 £m	2004 £m
Service cost	91	72
Employee contributions	(10)	(9)
Interest cost	124	110
Expected return on assets	(123)	(111)
Recognition of actuarial (gain)/loss	19	14
	101	76
	2005 £m	2004 £m
The US GAAP amounts recognised in the consolidated financial statements were:		
Prepaid benefit cost	27	23
Accrued benefit liability	(224)	(272)
	(197)	(249)
Intangible asset	4	9
Accumulated other comprehensive income	53	120
Net amount recognised	(140)	(120)

Under IFRS, actuarial gains and losses related to post-retirement employee benefits are reflected in the Consolidated Statement of Recognised Income and Expense, outside of the Income Statement.

The weighted average assumptions used across the major pensions plans at the end of the financial year and used to determine the benefit obligations were as follows:

	2005 %	2004 %
Discount rate	5.0	5.4
Long-term rate of return on assets	7.2	7.4
Earnings increase	4.2	4.4

The movement in the benefit obligation and plan assets was as follows:

	2005 £m	2004 £m
Benefit Obligation		
At beginning of year	2,185	2,007
Other additional plans	108	12
Exchange rate adjustments	28	(15)
Service cost	81	63
Interest cost	124	110
Actuarial (gain)/loss	127	100
Amendments	(11)	(3)
Benefits paid	(97)	(99)
Employee contributions	11	11
Expenses and tax paid	(2)	(1)
At end of year	2,554	2,185
Plan Assets		
At beginning of year	1,734	1,596
Other additional plans	85	4
Acquisitions/disposals	–	2
Exchange rate adjustments	17	(6)
Actual return on plan assets	352	178
Benefits paid	(97)	(99)
Employer contributions	87	49
Employee contributions	11	11
Expenses and tax paid	(2)	(1)
At end of year	2,187	1,734
Funded status	(367)	(451)
Unrecognised prior service cost	(6)	4
Unrecognised net actuarial loss/(gain)	204	323
Amount contributed to plan during fourth quarter	29	4
(Accrued)/Prepaid cost	(140)	(120)
The aggregate funded status of pension plans can be analysed as follows:		
For plans with Projected Benefit Obligation in excess of plan assets		
Aggregate Projected Benefit Obligation	2,450	2,108
Aggregate fair value of plan assets	2,080	1,650
The aggregate figures for plans in which the Accumulated Benefit Obligation exceeds plan assets can be analysed as follows:		
Aggregate Accumulated Benefit Obligation	2,066	1,871
Aggregate fair value of plan assets	1,860	1,639

42. Summary of differences between IFRS and US Generally Accepted Accounting Principles continued

(g) Retirement benefits continued

UK pension scheme disclosures

The UK pension scheme accounts for over 70% of the Group's total benefit obligations. The Trustees of the main UK Scheme have three key investment objectives to guide them in their strategic management of the Fund's assets. These are as follows:

- The acquisition of appropriate assets, which will generate income and capital growth and which together with new contributions from both members and the Group, will meet the cost of current and future benefits provided by the Fund.
- To limit the risk of the assets failing to meet the liabilities over the long term and in relation to the statutory UK Minimum Funding Requirement (MFR).
- To minimise the long term costs of the Fund by maximising the return on the assets, whilst having regard to the objective under (b) above.

The Trustees seek to achieve these objectives through investing in a mixture of real and monetary assets. In so doing, they recognise that returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile. A mixture across asset classes should provide the level of returns required by the Fund to meet its liabilities at an acceptable level of risk for the Trustees and an acceptable level of cost to the Group.

The Trustees have undertaken an asset and liability modelling exercise ("ALM") with the assistance of the main UK scheme's actuary. The ALM looked at a number of different investment scenarios and projected both a range and a best estimate of likely returns from each one, from which the Trustees determined the structure they feel most comfortable with. The long term asset allocation deemed appropriate to meet the Trustees objectives following this review was as follows:

Equities	60%
Bonds	25%
Property	10%
Other, including private equity	5%

The Trustees are considering a move to a higher proportion of bonds and an offsetting lower proportion of equities.

The breakdown of the market value of the main UK Scheme's assets and the rate of return assumption applied in calculating the net benefit cost under US GAAP split between the different asset categories are as follows:

	2005 Share of assets %	2004 Share of assets %	2003 Share of assets %
Equities	61%	61%	65%
Bonds	25%	26%	22%
Property	9%	8%	8%
Other, including private equity	5%	5%	5%
	100%	100%	100%

The expected rate of return assumptions have been determined following consultation with the Group's local actuarial advisers. The Group has taken direct account of the actual investment strategy of the associated pension schemes and expected rates of return on the different asset classes held. In the case of bond investments, the rates assumed have been directly based on market redemption yields at the measurement date, whilst those on other asset classes represent forward-looking rates that have typically been based on other independent research by investment specialists.

The assumptions that were used in calculating the benefit obligation and net benefit cost for US GAAP purposes for the main UK scheme were:

	As at 30 September 2005 % pa	As at 30 September 2004 % pa
Discount rate	5.0%	5.5%
Long-term asset return	7.1%	7.4%
Earnings increases	4.2%	4.5%
Pension increases	2.7%	2.7%

Under US GAAP the measurement date used for pension accounting is 30 September 2005.

The current best estimate of cash payments to be made into the UK schemes for 2006 is £120 million. The Accumulated Benefit Obligation of the main UK Scheme as at 30 September 2005 amounted to £1,769 million (2004: £1,458 million).

The current best estimate of future benefit payments to members of the UK scheme after 1 January 2006 are set out below:

	Annual payments £m
2006	66
2007	69
2008	72
2009	76
2010	79
Aggregate for financial years 2011 to 2015	452

Overseas disclosures

The Group has a number of overseas pension plans, the most significant of which are those in the USA, Canada, Australia and Ireland. The detail of the investment objectives of the schemes within these countries varies from plan to plan however the overall objectives are similar to those of the UK scheme.

The breakdown of the market value of the overseas scheme's assets and the rate of return assumptions applied in calculating the net benefit cost under US GAAP split between the different asset categories are as follows:

	2005 Share of assets %	2004 Share of assets %
Equities	66%	67%
Bonds	23%	20%
Property	6%	7%
Other	5%	6%
	100%	100%

The expected rate of return assumption has been determined in a manner consistent with that used by the UK scheme. The assumptions that were used in calculating the benefit obligation and net benefit cost for US GAAP purposes for the overseas schemes were not significantly different to either those used for the UK scheme or the Group as a whole.

The Group has a number of post retirement medical benefit plans, principally in the US and Canada. The assumed health care cost trend rates for 2005 are 10%, grading down to 5% over periods between 10 and five years. The effect of a 1% increase and decrease on the service and interest component of the net period service cost and the accumulated benefit obligations for these schemes would not be significant.

(h) Disposal gain adjustment

Due to differing treatment of goodwill and intangible assets under IFRS and US GAAP (see Note 42(a) and (b)), differences arise on the profit on sale of subsidiaries and investments. Prior to 29 December 2003, cumulative foreign exchange gains and losses relating to disposals were adjusted within reserves. Since 29 December 2003, cumulative gains and losses are included in determining the profit or loss on disposal of the business. At that date, the Group opted to set the cumulative translation reserve to nil as permitted. Under US GAAP, such gains and losses are also included in determining the profit and loss on disposal but they are tracked from the date of acquisition of the entity. As such the disposal gain recorded in the period was lower under US GAAP relative to IFRS.

(i) Restructuring

Under IFRS, a provision for restructuring is required to be recognised when an entity is demonstrably committed to the restructuring.

US GAAP requires that a liability for a cost associated with an exit or disposal activity be recognised and measured at fair value when the liability is incurred. Under US GAAP, an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. The timing of recognition and related measure of one-time termination benefit arrangements provided to current employees that are involuntarily terminated is dependent upon the arrangement meeting specific criteria mentioned above, and if the employees are required to render service until they are terminated in order to receive the termination benefits and, if so, whether employees will be retained to render service beyond a minimum retention period. If employees are not required to render service until they are terminated in order to receive the termination benefits (that is, if employees are entitled to receive the termination benefits regardless of when they leave) or if employees will not be retained to render service beyond the minimum retention period, a liability for the termination benefits shall be recognised and measured at its fair value at the date the arrangement is communicated.

42. Summary of differences between IFRS and US Generally Accepted Accounting Principles continued

(i) Restructuring (continued)

In respect to other exit costs, US GAAP requires that liabilities are recognised when they are incurred, which is normally when the goods or services associated with the activity are received. Additional information regarding the restructuring costs on an IFRS basis is provided in Note 4.

As a consequence certain restructuring costs that require recognition under IFRS may not be recognised under US GAAP.

(j) Employee Share arrangements

Under IFRS, the Group recognises a charge based on the grant date fair value of the share awards, for all share based awards.

Under US GAAP, prior to 2 January 2006, the Group applied US Accounting Principles Board (“APB”) Opinion 25 and related interpretations when accounting for its share option plans. Under APB 25, compensation expense was determined as the difference between the market price and exercise price of the share-based award. For fixed plans compensation expense is determined on the date of grant. For variable plans compensation expense is remeasured at each balance sheet date until the award becomes vested.

The Group adopted FAS No. 123(R) “Share-Based Payment” (FAS 123(R)) on 3 January 2005. FAS 123(R) requires the recognition of compensation expense in the Consolidated Income Statement related to the fair value of employee share-based awards. FAS 123(R) revises FAS No. 123 “Accounting for Stock-Based Compensation” and supersedes APB 25 “Accounting for Stock Issued to Employees.”

Since 3 January 2005, the Group has recognised the cost of all unvested employee stock options on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. The Company has selected the modified prospective method of transition; accordingly, prior periods have not been restated.

(k) Basis of consolidation

Under IFRS, the consolidated financial statements include the accounts of the parent company and those entities over which it exerts, or has the potential to exert, control. Control is usually obtained via a majority of voting rights in that entity.

Under US GAAP, a company must assess if the entities with which it has business relationships are “Variable Interest Entities” (VIE). VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. If an entity is a VIE the reporting company is required to assess whether it is the primary beneficiary of the VIE. IFRS (SIC 12) has a similar objective to US GAAP but requires an examination of the substance of the relationship which considers both voting rights, economics and other relevant factors. In addition, IFRS applicability can differ in scope from US GAAP.

Cadbury Schweppes Delaware LP is a 100% owned subsidiary of the Company and is the issuer of the Quarterly Income Preferred Securities. The results of the entity and its financial position are consolidated under IFRS. The Group has determined that the entity meets the definition of a VIE and that the Group is not the primary beneficiary of this entity. Hence for US GAAP purposes Cadbury Schweppes Delaware LP has been deconsolidated.

(l) Minority Interest

Under IFRS, the Company records minority interest on acquisitions at fair value. Under US GAAP the minority interest at acquisition is recorded at historical cost. The difference does not affect shareholders’ equity or net income under US GAAP.

(m) Lease commitments

The future minimum lease commitments (excluding advances pending formal commencement of leases) to which the Group is committed as at the year end were as follows:

	Finance leases		Operating leases	
	2005 £m	2004 £m	2005 £m	2004 £m
Within one year	23	22	52	59
Between one and two years	21	22	43	46
Between two and three years	21	23	37	35
Between three and four years	1	22	29	32
Between four and five years	1	1	24	29
After five years	1	1	113	134
	68	91	298	335
Less: Finance charges allocated to future periods	(5)	(5)	–	–
	63	86	298	335

(n) Doubtful Accounts

The movement on allowance for doubtful accounts is as follows:

	2005 £m	2004 £m
Balance at beginning of year	30	31
Exchange adjustments	2	2
Charged to profit and loss account	5	12
Transfer to Assets held for sale	(10)	–
Utilised	(5)	(15)
Balance at end of year	22	30

(o) Debt

Under IFRS, debt is initially stated at the amount of the net proceeds after deduction of issue costs. Under US GAAP issue costs are shown as assets. At 1 January 2006 the total value of unamortised debt issue costs are £7 million.

43. Changes and Proposed Changes to Generally Accepted Accounting Principles

In November 2004, the FASB issued FASB Statement

No. 151, Inventory Costs – an amendment of ARB No. 43 (“SFAS 151”). SFAS 151 requires idle facility expenses, freight, handling costs and wasted material (spoilage) costs to be recognised as current period charges. It also requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of production facilities. SFAS 151 will be effective for such costs incurred during the fiscal years beginning after 15 June 2005.

The Group is in the process of evaluating the impact of this standard on its financial statements.

In December 2004, the FASB issued FASB Statement No. 153 (SFAS 153), Exchanges of Non-Monetary Assets – an amendment of APB Opinion No. 29, which amends APB No. 29, Accounting for Non-monetary Transactions, (“APB 29”)

by eliminating the exception to the fair value principle for exchanges of similar productive assets. SFAS 153 also eliminates the APB 29 concept of culmination of an earnings process. The amendment requires that an exchange on non-monetary assets be accounted for at fair value if the exchange has commercial substance and fair value is determinable within reasonable limits. SFAS 153 is effective for non-monetary transactions occurring in fiscal periods beginning after 15 June 2005. The impact of SFAS 153 will depend on the nature and extent of any exchanges of non-monetary transactions after the effective date, but the Group does not currently expect SFAS 153 to have a material impact on its consolidated financial position, results of operations or cash flows.

In February 2006, the FASB issued FASB Statement No. 155 (SFAS 155), Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS 155 nullifies the guidance from the FASB’s Derivatives Implementation Group (DIG) in Issue D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets, which deferred the application of the bifurcation requirements of SFAS 133 for certain beneficial interests. SFAS 155 provides a fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation and requires that beneficial interests in securitised financial assets be analysed to determine whether they are freestanding derivatives or whether they are hybrid instruments that contain embedded derivatives requiring bifurcation. SFAS 155 also provides clarification on specific points related to derivative accounting. SFAS 155 is effective for fiscal years beginning after 15 September 2006. The Group does not currently expect SFAS 155 to have a material impact on its financial position, results of operations or cash flows.

In June 2005 EITF 05-05 “Accounting for Early Retirement or Post-employment Programs with Specific Features

(Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)” (“EITF 05-05”) was issued. EITF 05-05 provides specific guidance on how to account for such features and is effective for fiscal years beginning after 15 December 2005. The Group does not currently expect EITF 05-05 to have a material impact on its financial position, results of operations or cash flows.

IFRS 7, “Financial Instruments: Disclosures”, introduces new disclosures to improve the information about financial instruments. It requires the disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, ‘Financial Instruments: Disclosure and Presentation’. IFRS 7 is effective for fiscal years beginning

1 January 2007. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007, and it is not expected to have a material effect on its disclosures.

IFRIC 4, “Determining whether an Arrangement contains a Lease”, requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. IFRIC 4 is effective for fiscal years beginning 1 January 2006. The Group does not currently expect IFRIC 4 to have a material impact on its financial position, results of operations or cash flows.

43. Changes and Proposed Changes to Generally Accepted Accounting Principles continued

IFRIC 7, “Applying the Restatement Approach” under IAS 29 “Financial Reporting in Hyperinflationary Economies” provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy when that economy was not hyperinflationary in the prior period. IFRIC 4 is effective for periods beginning 1 March 2006. The Group does not currently expect IFRIC 7 to have a material impact on its financial position, results of operations or cash flows.

In December 2005, IAS 21, “The Effects of Changes in Foreign Exchange Rates” was amended. The amendment clarifies that a subsidiary can be a ‘foreign operation’ in relation to the accounting for net investments in foreign operations. The amendment also changes the classification of the foreign exchange gains or losses on monetary items forming part of an entity’s net investment in a foreign operation where such an item is denominated in a currency other than the functional currency of either the reporting entity or foreign operation. Such foreign exchange gains and losses are now reflected in the separate component of equity in the financial statements, whereas previously they were not reclassified. The impact of the standard will depend on future movements in foreign exchange rates however had the amendment been in place in 2005 there would have been no material impact on its financial position, results of operations or cash flows. The amendment is effective for annual periods beginning on or after 1 January 2006.

44. Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 13 March 2006.