

corporate governance report

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Corporate governance report

Introduction

This report has been prepared in accordance with the Code of Best Practice set out in section 1 of the July 2003 FRC Combined Code on Corporate Governance. Throughout 2006, the Company fully complied with the provisions of the Code and expects to comply in 2007 with the revised Code which takes effect for the current financial year.

In managing the affairs of the Company, the Board of Cadbury Schweppes plc is committed to the principles of good corporate governance and dedicated to achieving high standards of business integrity, ethics and professionalism across all our activities. The Board adopted a Statement of Corporate Governance Principles on 16 February 2007 and this can be found on our website. It explains the fundamental principles which guide corporate governance for the Group and ensures that the Group acts in the best interests of its stakeholders. The Group also has both a Financial Code of Ethics (that applies to the Chief Executive Officer, Chief Financial Officer and senior financial executives in the Group) and a code of conduct (Our Business Principles) that apply at Board level and to all managers across the Group. All executive members of the Board, the CEC, the Global Leadership Team, and managers are required to sign up to Cadbury Schweppes' Business Principles on an annual basis to confirm that they will abide by them. We have in place a confidential, all employee Speaking Up helpline in most languages, which enables employees to report concerns of breaches of the Business Principles and any other breach of standards of good behaviour. Both the Code and the Business Principles are available on the Group's website, www.cadburyschweppes.com.

The Board

As at the date of this report, the Board has 12 members: three Executive Directors, and nine non-executive Directors all of whom (except the Chairman) are deemed independent under the provisions of the Combined Code. No individual or group of individuals dominates the Board's decision-making. Collectively, the non-executive Directors bring a wide range of international experience and expertise as they all currently occupy or have occupied senior positions in industry and public life and as such each contributes significant weight to Board decisions.

In 2006 we appointed two new Directors: Sanjiv Ahuja, Chief Executive of Orange SA, on 19 May and Raymond Vialut, former Vice Chairman of General Mills, Inc., on 1 September. Baroness Wilcox retired from the Board on 31 December 2006, following a commitment to the Company of almost 10 years. David Thompson and Rick Braddock will have both served on the Board for over nine years as at the date of this report. Rick Braddock will therefore retire at the AGM; David has agreed, at the request of the Board, to remain on the Board for a further period to enable a smooth succession for the key role as Chairman of the Audit Committee. As such he will be proposed for re-election by the shareowners at the forthcoming AGM. As noted below, the Board has considered David Thompson's independence and determined that he remains independent. With effect from 1 June 2007, Ellen Marram will join the Board as a non-executive Director. Biographies of each of the Directors as at the date of this report, can be found on pages 18 and 19.

Board meetings and attendance: The attendance of the individual Directors at Board and Committee meetings during 2006 was as follows:

	Board (7 meetings)	Strategy (1 meeting)	Audit (4 meetings)	Corporate and Social Responsibility (2 ¹ meetings)	Nomination (3 ⁴ meetings)	Remuneration (4 meetings)
Sir John Sunderland	7	1	n/a	2	3	n/a
Roger Carr ²	6	1	3	1	2	4
Todd Stitzer	7	1	n/a	2	n/a	n/a
Ken Hanna	7	1	n/a	n/a	n/a	n/a
Bob Stack	7	1	n/a	2	n/a	n/a
Sanjiv Ahuja ¹	5	1	n/a	1	1	n/a
Wolfgang Berndt ²	7	1	4	1	1	4
Rick Braddock ²	6	1	2	0	0	3
Lord Patten ²	7	1	n/a	2	1	n/a
David Thompson ²	7	1	4	2	1	4
Rosemary Thorne ²	7	1	4	1	1	4
Raymond Vialut ³	3	1	n/a	n/a	n/a	n/a
Baroness Wilcox ²	7	1	n/a	2	2	n/a

NB. n/a means that the specified Director is not a member of that Committee, although he or she may attend meetings at the invitation of the chairman of the Committee.

- ¹ Sanjiv Ahuja was appointed a non-executive Director on 19 May 2006. He has not missed a Board meeting since his appointment.
- ² When Directors have not been able to attend meetings due to conflicts in their schedule, they receive and read the papers for consideration at that meeting, and have the opportunity to relay their comments in advance, and if necessary follow up with the relevant chairman on the decisions taken at the meeting.
- ³ Raymond Vialut was appointed a non-executive Director on 1 September 2006. He has not missed a Board meeting since his appointment.
- ⁴ The Nomination Committee and Corporate and Social Responsibility Committee memberships were amended in July 2006 to include all the non-executive Directors.

Role of the Board

The Board has responsibility for the overall management and performance of the Group and the approval of its long-term objectives and commercial strategy. Whilst the Board has delegated the day to day management of the Group to the Chief Executive Officer, there is a formal schedule of matters reserved for the Board which provides a framework for the Board to oversee control of the Group's affairs. The Chief Executive Officer is supported by his Executive Committee. The Board met 7 times during 2006, with an additional meeting on 19 October 2006 dedicated to a review of the Group's strategy. The Board is also assisted in carrying out its responsibilities by the various Board committees, including a Standing Committee consisting of any two Directors which was formed on 17 February 2006 and which deals with routine business between Board meetings; following a formal decision, the Board may also delegate authority to the Committee to facilitate finalising matters within agreed parameters. The work of the Board committees is described on pages 48 to 50.

How the Board operates

Reserved and delegated authorities: The Board has a formal schedule of matters reserved to it for decision, which includes:

- > Responsibility for the strategic direction of the Group;
- > Committing to major capital expenditure, acquisitions and disposals;
- > Satisfying itself as to the integrity of financial information;
- > Reviewing the effectiveness of the Group's system of internal control and risk management process;
- > Authorisation of any material borrowings and any issue of equity securities;
- > Agreeing treasury policy including the agreement of foreign currency and interest risk parameters;
- > Ensuring adequate succession planning for the Board and senior management and appointing and removing Directors and Committee Members;
- > Approval of annual and interim results;
- > Dividend policy;
- > Monitoring institutional investor guidelines and corporate governance principles;
- > Undertaking a formal and rigorous review annually of its own performance, that of its committees and individual Directors; and
- > Reviewing the Company's corporate governance arrangements.

Other matters are delegated to Board Committees or to individual executives.

Information flow: Senior executives below Board level attend certain Board meetings and make presentations on the results and strategies of their business units. Board members are given appropriate documentation in advance of each Board and Committee meeting. In addition to formal Board meetings, the Chairman and Chief Executive Officer maintain regular contact with all Directors and hold informal meetings with the non-executive Directors to discuss issues affecting the business.

Independent professional advice: The Board has approved a procedure for Directors to take independent professional advice if necessary, at the Company's expense (up to a maximum cost of £25,000 p.a. each). Before incurring professional fees the Director concerned must consult the Chairman of the Board or two other Directors (one of whom must be a non-executive). No such advice was sought by any Director during the year.

Group Secretary: The Group Secretary is responsible for advising the Board on all corporate governance matters, ensuring that all Board procedures are followed, ensuring good information flow, facilitating induction programmes for Directors and assisting with Directors' continuing professional development. All Directors have direct access to the advice and services of the Group Secretary. Any questions shareholders may have on corporate governance matters, policies or procedures should be addressed to the Group Secretary.

Board effectiveness

Induction: On joining the Board, Directors are given background information describing the Company and its activities. Raymond Vialt and Sanjiv Ahuja, who were appointed as Directors during 2006, received an induction pack of information on our business following their appointment. This included guidance notes on the Group, the Group structure, its operations, information on corporate governance and brokers' reports. Meetings were arranged with the members of the Chief Executive's Committee (see page 50) and other senior executives below Board level from each Group function, as well as some of our advisers. Appropriate visits have been arranged to our sites. Meetings are also arranged with the Group departments who provide support to the relevant Board Committee the Directors will serve on.

Continuing professional development: During 2006 we held two seminars for Board members. The first covered the Market Abuse Directive and a briefing on corporate governance and company law. The second session dealt with further corporate governance and company law matters including the Transparency Directive and the Takeover Code; there was also a presentation on social, environmental and ethical issues and regulatory compliance. These formal sessions are in addition to written briefings to the Board on areas of regulatory and legislative change.

Performance evaluation: During the year the Board has undertaken a formal and independent evaluation of its performance and effectiveness using external consultants, Egon Zehnder. The review combined qualitative dialogue and a quantitative questionnaire to establish a comprehensive foundation from which to track Board effectiveness going forward. The review covered Board effectiveness in terms of dynamics and processes and individual Director contributions. The Board discussed the findings and recommendations at its meeting in October. Subsequently, the Chairman and the Senior Independent non-executive Director (as described below) reviewed the personal feedback collated for each Director and shared their respective feedback with each other, facilitated by Egon Zehnder. Overall the review concluded that the Board is well functioning and captures the benefits of a unitary board with issues generally raised in good time for consultation, debate and effective decision-making. The Executive team is responsive to challenges from the non-executives who were engaged and probing. Governance and Board processes in general are robust and recommendations on improvements are already well in hand. Each of the committees was also reviewed and progress has been made.

The CEO and Chairman's job descriptions

The roles of the Chairman and Chief Executive Officer are separate and their responsibilities are clearly defined as follows:

Chairman

Sir John Sunderland, the Chairman, spends 2-3 days a week on the business of the Group. Sir John's role and responsibilities are as follows:

- > Ensures the effective running of the Board, its agenda and processes;
- > Ensures the Board agrees the strategy for the Company and checks on its implementation;
- > Promotes the highest standards of corporate governance and ensures appropriate communication with shareowners on these and our financial performance;
- > Ensures the maintenance of our "Purpose and Values" (a framework for our strategic intent);
- > Ensures we have an adequate succession planning process at the Board and senior management level;
- > Acts externally in maintaining appropriate relationships and projects the Company and our views; and
- > Works with the Chief Executive Officer and the Chief Executive's Committee to provide support and advice as appropriate.

Chief Executive Officer

Todd Stitzer is our Chief Executive Officer. Todd's role and responsibilities are as follows:

- > Develop and translate strategies into a manageable set of goals and priorities and communicate and implement these;
- > Provide motivation and leadership to the regions and functions; chairing the Chief Executive's Committee and setting its style and tone;
- > Manage and lead on major transactions and operating issues facing the business;
- > Set the overall policy and direction of our business operations, investment and other activities within a framework of prudent and effective risk management, and ensure that functions to control those risks operate satisfactorily;
- > Ensure the soundness of our financial structure, results (including cash flow) and forecasts and take corrective action when necessary;
- > Ensure that our financial management is performed to the highest levels of integrity, quality and transparency and in the interests of shareowner value;
- > Ensure that our business standards are of the highest order, fully in compliance with laws and regulations and that we operate in a manner consistent with 'Our Business Principles';
- > Ensure that growth in shareowner value is compatible with an increased accountability for social and environmental performance;
- > Develop policies and strategies for managing health and nutrition issues and related obesity concerns;
- > Develop and maintain strong communication programmes and dialogues to inform shareowners, analysts etc. of our results and progress; and
- > With the Chairman, provide external leadership and represent the Company with major customers and industry organisations.

External directorships for executive Directors

Subject to certain conditions, and unless otherwise determined by the Board, each executive Director is only permitted to accept one appointment as a non-executive director of another listed company. The Board considers that executive Directors can gain valuable experience and knowledge through such appointments.

Details of the fees received by the Directors for external appointments can be found in the Directors' Remuneration Report on page 61.

Non-executive Directors

The Board reviews the independence of all non-executive Directors annually and have determined that all such Directors (except Sir John Sunderland) are independent and have no cross-directorships or significant links which could materially interfere with the exercise of their independent judgement.

Senior independent non-executive Director: Roger Carr is the Senior independent non-executive Director and our Deputy Chairman. Roger's responsibilities include meeting major shareowners as and when requested and chairing meetings of the non-executive Directors without executive management or the Chairman being present.

Terms of appointment: Sir John Sunderland was appointed for an initial term of one year which has now been extended to 2008. All other non-executive Directors are appointed for an initial term of three years. Thereafter, subject to satisfactory performance, they may serve one or two additional three-year terms, with a thorough review of their continued independence and suitability to continue as Directors being undertaken if they are to remain on the Board for more than nine years. The terms and conditions of appointment for the non-executives are summarised in the Directors' remuneration report on page 62 and are available on request from the Group Secretary.

Meetings of non-executive Directors: The non-executive Directors meet separately (without the Chairman being present) at least once a year principally to appraise the Chairman's performance. During September 2006, they held one such meeting chaired by Roger Carr and attended by all the non-executive Directors except for Sanjiv Ahuja.

Key Committees

The terms of reference for all our committees are reviewed on a regular basis by the Board and were last reviewed in February 2007. Committees are authorised to obtain outside legal or other independent professional advice if they consider it necessary to do so.

Audit Committee

Members: David Thompson (Chairman), Rick Braddock, Roger Carr, Wolfgang Berndt, Rosemary Thorne and (from 16 February 2007) Raymond Vault. The Committee consists solely of independent non-executive Directors, all of whom have extensive financial experience in large organisations. All Committee members, except Raymond Vault, held office throughout the year and at the date of this report. The Board has determined that David Thompson is an Audit Committee financial expert as defined by the US Securities and Exchange Commission.

At the invitation of the Committee, the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chief Legal Officer, Group Secretary, Director, Financial Control, Director of Business Risk Management, Head of Internal Audit and the external auditor attend meetings. The Director of Group Secretariat attends and is Secretary to the Committee. The Committee met four times in 2006, meeting separately with the external auditors in February and July, and with the internal auditors in July. The Chairman also holds preparatory meetings with the Group's senior management as appropriate prior to Committee meetings. All Directors have access to the minutes of all the Committee's meetings and are free to attend.

The composition and role of the Audit Committee is reviewed annually against the recommendations made in the Smith Report published in 2003, and complies with all of that Report's recommendations.

Key duties:

- > Responsible for all accounting matters and financial reporting matters prior to submission to the Board for endorsement;
- > To monitor the integrity of the Company's financial statements and ensure that they meet the relevant legislative and regulatory requirements that apply to them, and are in accordance with accepted accounting standards;
- > To review major changes in accounting policies and practices;
- > To review the Company's internal controls and their effectiveness;
- > To review the Company's statements and practices on internal controls (including section 404 Sarbanes-Oxley certification) and other aspects of corporate governance;
- > To review the effectiveness of the external audit process, the Group's relationship with the external auditors including fees, and make recommendations on the appointment and dismissal of the external auditors;
- > To consider the annual report on internal audit and the effectiveness of internal control, reviewing the Group's internal audit process and the audit plan for the following year;
- > To review the provision and scope of audit and non-audit work by the external auditor and the fees charged;
- > To receive reports from the Speaking Up programme (established to investigate complaints in confidence from employees and others);
- > To receive semi-annual reports on Group legal matters including litigation;
- > To receive an annual review of the effectiveness of the Committee;
- > To review corporate governance developments in the UK and US and the Group's response to these developments; and
- > To monitor the Group's risk management and business ethics processes.

In 2006, the Committee's agenda included the programme for ensuring compliance with section 404 Sarbanes-Oxley (which applied to the Group for the first time this year), changes to UK corporate legislation, restructuring of the Group's risk processes (including the establishment of the Risk and Compliance Committee led by Todd Stitzer) and work to redefine the role and operation of Internal Audit. The Committee was also heavily involved in considering the Group's response to the accounting irregularities and other issues in Cadbury Nigeria, explained elsewhere in this document.

Non-audit services: In line with the requirements of Sarbanes-Oxley, Group policy prohibits the external auditor from carrying out certain categories of non-audit services. The list of such services may only be varied by the Audit Committee.

The external auditor is permitted to undertake some non-audit services, for example due diligence activities associated with potential acquisitions or disposals of businesses by the Group, but these services and their associated fees must be approved in advance by the Committee. Where such services are considered recurring in nature, approval may be sought for the full financial year at the beginning of that year. Approval for other permitted non-audit services has to be sought on an ad hoc basis. Where no Committee meeting is scheduled within an appropriate time frame, the approval is sought from the Chairman of the Committee.

Auditor independence: Ensures that the external auditor remains independent of the Company. In addition, the Committee receives written confirmation from the external auditor as to any relationships which may be reasonably thought to influence its independence. The external auditor also confirms whether it considers itself independent within the meaning of the UK and US regulatory and professional requirements, as well as within the meaning of applicable US federal securities laws and the requirements of the Independence Standards Board in the US.

Other issues: In appropriate circumstances, the Committee is empowered to dismiss the external auditor and appoint another suitably qualified auditor in its place. The re-appointment of the external auditor is submitted for approval annually by the shareowners at the Annual General Meeting.

Details of the fees paid to the external auditor in 2006 can be found at Note 6 in the financial statements.

Nomination Committee

Members: All non-executive Directors. The membership was amended in July 2006 to include all current non-executive Directors; prior to this the Committee consisted of Sir John Sunderland, Roger Carr and Baroness Wilcox. Raymond Vault joined the Committee in February 2007.

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The Chief Executive Officer and Chief Human Resources Officer attend meetings at the invitation of the Chairman of the Committee. The Group Secretary also attends and is secretary to the Committee. This Committee is empowered to bring to the Board recommendations as to the appointment of any new executive or non-executive Director, provided that the Chairman, in developing such recommendations, consults all Directors and reflects that consultation in any recommendation of the Nomination Committee. The Committee ensures that a review of Board candidates is undertaken in a disciplined and objective manner.

The Nomination Committee is responsible for succession planning for the Board. The Board as a whole is responsible for development plans, including the progressive refreshing of the Board, which are reviewed on an annual basis. The plans involve an annual objective and comprehensive evaluation of the balance of skills, knowledge and experience of the Board. We have recently appointed three new non-executives, and two of the longest serving non-executives have retired or will soon retire. The re-elections proposed at the AGM reflect the Board's policy on its development. No Director participates in the discussions considering his or her successor.

During 2006, the Committee met three times to review succession planning and the appointment of Sanjiv Ahuja, Raymond Viault and Ellen Marram as new non-executive Directors. External search consultants were engaged to produce a list of candidates for this appointment. This list was then reduced to a short list of candidates which was discussed between the Chairman and the other members of the Nomination Committee. The Directors then met Sanjiv, Raymond and Ellen and their nominations were presented to the Board for approval at the February and September 2006 and February 2007 Board meetings respectively.

Remuneration Committee

Details of the Remuneration Committee and its policies, together with the Directors' remuneration, emoluments and interests in the Company's share capital, are set out on page 67.

Corporate and Social Responsibility Committee

Members: Lord Patten (Chairman), Wolfgang Berndt, Bob Stack, Todd Stitzer, Sir John Sunderland, David Thompson, and, from July 2006, Roger Carr, Sanjiv Ahuja, Rick Braddock and Rosemary Thorne. Raymond Viault joined the Committee in February 2007. Baroness Wilcox was Chairman until 31 December 2006. The terms of membership of the Committee were amended in July 2006 to include all non-executive Directors as members.

This Committee focuses on corporate and social responsibility matters in relation to the environment, employment practices, health and safety, equal opportunities and diversity, community and social investment, ethical trading and human rights, and other aspects of ethical business practice. Lord Patten was appointed Chairman on 1 January 2007 on the resignation from the Board of Baroness Wilcox on 31 December 2006. Further details of the Group's approach to corporate and social responsibility matters can be found in the Description of Business section on page 36.

Chief Executive's Committee (CEC)

Members: Todd Stitzer (Chairman), Hester Blanks (also Secretary to the Committee), Gil Cassagne, Jim Chambers, Steve Driver, Ken Hanna, David Macnair, Tamara Minick-Scokalo (from 2 January 2007), Matt Shattock, Bob Stack, Hank Udow, Rajiv Wahi and Mark Reckitt (from 2 January 2007).

As described in the Description of Business on page 21, the CEC deals with major operational and management issues including the review of monthly financial results and forecasts, proposals for capital expenditure and major operating issues.

Relations with shareowners

Our shareowners are very important to us. All shareowners receive regular communications from the Group and a full Annual Report is available by election or on request. Regular trading updates are published via the London Stock Exchange and by press release, and appear on our website. Presentations and webcasts on the development of the business are available on the website.

Annual General Meeting ("AGM")

The Board views the AGM as an opportunity for individual shareowners to question the Chairman, and through him the chairmen of the various Board Committees and other Directors. At the AGM there will be statements by the Chairman and Chief Executive Officer, and all the Directors plan to attend.

Directors are submitted for reappointment by the shareowners at regular intervals. At each Annual General Meeting, not less than one-third of the Directors must retire by rotation. In addition, any Director who has been a Director at either of the two previous Annual General Meetings but who has not retired by rotation, and any Director who was appointed since the last Annual General Meeting, must retire.

Details of the meeting and the resolutions to be proposed together with explanatory notes are set out in the Notice of Meeting which is sent to shareowners. Shareowners attending will be advised of the number of proxy votes lodged for each resolution, in the categories "for" and "against", together with the number of "votes withheld". All resolutions will be voted on by taking a poll, the results of which will be announced to the London and New York Stock Exchanges.

Institutional investors

The Company engages with its institutional investors on a day-to-day basis via the Chief Executive Officer and the Chief Financial Officer. The senior independent non-executive Director and other members of the Board are also available to meet major shareowners on request. The Chairman contacts the top 10 shareowners each year with an offer to meet them. As part of his role as the senior independent non-executive Director, Roger Carr is also available to shareowners when contact with the executive Directors or the Chairman may not be appropriate.

The Chief Executive Officer and Chief Financial Officer meet with institutional investors in the UK, the US and continental Europe on a regular basis. In October 2006, they hosted a seminar for institutional investors, analysts and brokers in New York and London.

The Directors are supported by our Investor Relations department (IR), which is in regular contact with institutional investors, analysts and brokers. An IR report is produced for each Board meeting; this includes direct feedback from institutional investors provided by our external advisors including Goldman Sachs, UBS and Makinson Cowell. In addition, the Board commissions an annual independent audit of institutional investors' views on our management and strategy. These measures ensure Board members develop an understanding of the views of our major shareowners.

Company website

Our website, www.cadburyschweppes.com, is a primary source of information on the Company. The site includes an archive of financial announcements and presentations, as well as detailed information on our corporate governance practices. This includes:

- > Our Financial Code of Ethics;
- > Our Business Principles;
- > Our Statement of Corporate Governance Principles;
- > Details of how we comply with the Combined Code on Corporate Governance;
- > Terms of reference for the Audit, Corporate and Social Responsibility, Nomination and Remuneration Committees;
- > Summary of the terms and conditions of the appointment of our non-executive Directors;
- > Full schedule of matters reserved for the Board;
- > Details of our approach to corporate and social responsibility;
- > Documentation sent to shareowners, including AGM material and our report and accounts; and
- > Voting figures from the AGM.

Shareowners can register to receive a notification when any press releases are made.

Internal control

The Directors have responsibility for the system of internal control that covers all aspects of the business. In recognition of that responsibility, the Directors set policies and seek regular assurance that the system of internal control is operating effectively. Strategic, commercial, operational and financial areas are all within the scope of these activities which also include identifying, evaluating and managing the related risks.

The Directors acknowledge their responsibility for the system of internal control. However, the Directors are aware that such a system cannot totally eliminate risks and thus there can never be an absolute assurance against the Group failing to achieve its objectives or a material loss arising.

The key elements of the system may be described as the control environment, and this is represented by the following:

- > The key business objectives are clearly specified at all levels within the Group;

- > "Purpose and Values", a framework for our strategic intent, and "Our Business Principles", a set of guidelines on legal compliance and ethical behaviour, are distributed throughout the Group;
- > The organisation structure is set out with full details of reporting lines and accountabilities and appropriate limits of authority for different processes;
- > Procedures to ensure compliance with external regulations;
- > The network of disclosure review committees which exists throughout the Group (described below);
- > Procedures to learn from control failures and to drive continuous improvement in control effectiveness;
- > A wide range of corporate policies deal, amongst other things, with control issues for corporate governance, management accounting, financial reporting, project appraisal, environment, health and safety, information technology, and risk management generally;
- > Individual business units operate on the basis of multi-year contracts with monthly reports on performance and regular dialogues with Group senior management on progress;
- > On an annual basis the CEC, Audit Committee and then the Board consider and agree the major risks facing the business and these risks are used to focus and prioritise risk management, control and compliance activities across the organization. The key risks facing the Group are summarised in the Description of Business on pages 38 to 40;
- > Various internal assurance departments, including Group Audit, carry out regular reviews of the effectiveness of risk management, control and compliance processes and report their findings to the business unit involved as well as to Group management and the Audit Committee; and
- > The Audit Committee approves plans for control self-assessment activities by business units and regions as well as the annual Group Audit activity plan. The Committee also deals with significant issues raised by internal assurance departments or the external auditor.

The management of all forms of business risk continues to be an important part of ensuring that we continue to create and protect value for our shareowners. The processes involved call for the identification of specific risks that could affect the business, the assessment of those risks in terms of their potential impact and the likelihood of those risks materialising. Decisions are then taken as to the most appropriate method of managing them. These may include regular monitoring, investment of additional resources, transfer to third parties via insurance or hedging agreements and contingency planning. For insurance, there is a comprehensive global programme which utilises an internal captive structure for lower level risks and the external market only for cover on major losses. Hedging activities relate to financial and commodity risks and these are managed by the Group Treasury and Procurement departments with external cover for the net Group exposures (see pages 89 to 91).

All business units are required to regularly review their principal business risks and related strategies (i.e. the chosen management methods). The internal assurance departments and other Group functions report on any further business risks evident at a regional, global or corporate level. Regional and global status reports assessing the extent to which all major risks have been effectively mitigated are prepared every six months and are reviewed by the Audit Committee. A structure of central Group and regional risk and compliance committees came into operation from January 2007.

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The Group also established in 2002 a network of disclosure review committees (DRC) throughout the organisation. The Group DRC, chaired by the Chief Legal Officer and comprising senior executives at and below Board level, reviews financial and trading statements and releases, and the verification process which underpins these. Meetings are attended by the Group's external auditors, and UK and US legal advisors. It ensures that such statements and releases are accurate and complete and comply with all relevant legislation and regulation. Each region and function is required to have its own DRC reporting to the Group DRC to ensure that interim and full year financial reporting is accurate and that all matters which may be material to the Group as a whole have been reported to the Board. The Group DRC reports its findings to the Audit Committee and through that Committee to the Board.

At the year end, the Group's only significant associate is Camelot, which is managed in line with its shareholder agreement.

The Group is subject to the requirements of the US Sarbanes-Oxley Act as a result of the listing of its American Depositary Receipts (ADRs) on the New York Stock Exchange. Throughout 2006, progress has been made on the evaluation of controls and their enhancement where necessary to comply with section 404 of that Act. Testing of these controls will be completed prior to the filing of the Company's Form 20-F with the US SEC in early April, and a report on compliance with this legislation will be made in that document.

On 20 February 2006, Cadbury Schweppes plc acquired a majority holding of Cadbury Nigeria, a listed entity in which the Group previously had been a minority investor and which it had treated as an associate for accounting purposes. Subsequently significant mis-statements of Cadbury Nigeria's balance sheet and profit and loss account were identified. Following an investigation, management ascertained that these irregularities dated back over a number of years and comprised inappropriate recognition of revenue, overvaluation of assets (including working capital balances and fixed assets) and the undervaluation of liabilities. These accounting mis-statements have been corrected in the consolidated financial statements of Cadbury Schweppes plc in 2006. The adjustment has been recorded within the associate line as the irregularities occurred in the period in which Cadbury Nigeria was treated as an associate. Consequently the Group has recognised a non-Underlying charge of £23 million reflecting its share of the adjustments. Both the former CEO and CFO of Cadbury Nigeria have now left the business. The CEO has been replaced with a former Cadbury Schweppes General Manager who has extensive operational experience in Africa and the CFO with an experienced Cadbury Schweppes Finance Director.

The Group is performing a full review of the financial processes, systems and people capabilities in place at Cadbury Nigeria and anticipates further changes will be made in 2007. Our Group Internal Audit will also separately perform full audit reviews of the business in 2007.

Other than in relation to Nigeria, the Board's review of the system of internal control has not identified any failings or weaknesses which it has determined to be significant, and therefore no remedial actions are necessary. Accordingly, the Directors confirm that in compliance with principle C.2 of the Combined Code, the system of internal control for the year ended 31 December 2006 and the period up to 9 March 2007 has been reviewed in line with the criteria set out in the Turnbull guidance currently applicable.

Sir John Sunderland
Chairman

9 March 2007