financial review

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Overview

Information used by management to make decisions
Regular monthly management accounts are produced for review by the Chief Executive's Committee (CEC). These accounts are used by the CEC to make decisions and assess business performance.

The key performance measures, which are monitored on a Group wide and regional basis by the CEC, are:
> Revenue
> Underlying profit from operations
> Underlying operating margins
> Working Capital
> Free Cash Flow
> Net cash from operating activities (a key component of Free Cash Flow)

Explanation of management performance measures
Included within the above performance metrics are a number of management performance measurements, namely Underlying profit from operations, Underlying operating margins and Free Cash Flow.

Underlying earnings measures

The table below reconciles Underlying profit from operations, as we define it, to what we believe is the corresponding IFRS measure, which is profit from operations.

	2006 £m	2005 £m	2004 £m
Profit from operations	**909**	**995**	**819**
Add back:			
Restructuring	133	71	139
Amortisation and impairment of intangibles	38	6	7
Non-trading items	(40)	(25)	(18)
UK product recall	30	–	–
IAS 39 adjustment	3	(22)	n/a
Underlying profit from operations	**1,073**	**1,025**	**947**

A segmental analysis of Underlying profit from operations is presented alongside profit from operations on pages 109 to 111 of the audited financial statements.

In addition, we present Underlying earnings per share, along with a reconciliation to reported earnings per share in Note 13 to the audited financial statements. We calculate Underlying earnings per share, which is a non-GAAP measure, by adjusting Basic earnings per share to exclude the effects of the following:
> Restructuring costs;
> Amortisation and impairment of intangibles;
> Non-trading items;
> Exceptional items;
> IAS 39 adjustment; and
> The tax impact of the above.

The reconciling items between reported and Underlying performance measures are discussed in further detail below.

The costs we incurred in implementing the Fuel for Growth project and integrating acquired businesses are classified as restructuring costs. Our four year Fuel for Growth initiative aims to reduce direct and indirect annual costs by £360 million by 2007. Achieving these benefits is expected to require total restructuring spend of £500 million over the life of the project, with £300 million of capital expenditure.

We view these costs as costs associated with investments in the future performance of the 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 on the face of the income statement.

Our trade is the marketing, production and distribution of branded confectionery and beverage products. As part of our operations we may dispose of subsidiaries, associates, brands, investments and significant fixed assets that do not meet the requirements to be separately disclosed outside of continuing operations. These discrete activities form part of our operating activities and are reported in arriving at profit from operations. However, we do not consider these items to be part of our 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 significant impact on the absolute amount of, and trend in, profit from operations and operating margins and are not included in the Underlying performance trends of the business.

Our performance is driven by the performance of our brands, other acquisition intangibles and goodwill, some of which are predominantly internally generated (e.g. the Cadbury brand) and some of which have been acquired (e.g. the Adams brands). Certain of the acquired brands and other acquisition intangibles are assigned a finite life and result in an amortisation charge being recorded in arriving at profit from operations. There are no similar charges associated with our internally generated brands and other intangible assets. In addition, from time to time, the Group may be required to recognise impairments of intangibles and goodwill. No similar charges can occur from our organically grown businesses. We believe that excluding acquisition intangible amortisation and goodwill impairment from our measure of operating performance allows the operating performance of the businesses that were organically grown and those that have resulted from acquisitions to be analysed on a more comparable basis.

We seek to apply IAS 39 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 our hedging arrangements, in a number of circumstances, we are unable to obtain hedge accounting. We continue, however, to enter into these arrangements as they provide certainty of price and delivery for the commodities we purchase, the exchange rates applying to the foreign currency transactions we enter into and the interest rates that apply to our debt. These arrangements result in fixed and determined cash flows. We believe that these arrangements remain effective economic and commercial hedges.

The effect of not applying hedge accounting under IAS 39 means that the reported results reflect the actual rate of exchange and commodity price ruling on the date of a transaction regardless of the cash flow paid at the predetermined interest rate, rate of exchange and commodity price. In addition, the movement in the fair value of open contracts in the period 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 rates or commodity prices, this volatility will not be reflected

in our cash flows, which will be based on the fixed or hedged rate. The volatility introduced as a result of hedge accounting under IAS 39 has been excluded from our Underlying performance measures to reflect the cash flows that occur under the Group's hedging arrangements.

From time to time events occur which due to their size or nature we consider to be exceptional. The gains and losses on these discrete items can have a material impact on the absolute amount of, and trend in, the profit from operations and result for the year. Therefore any gains and losses on such items are analysed outside Underlying to enable the trends in the Underlying performance of the business to be understood. Where exceptional items are excluded from the Underlying result we provide additional information on these items to enable a full understanding of the events and their financial impact.

The items treated as exceptional in the period covered by this report are:

> UK product recall – in 2006, the incremental direct costs (net of directly attributable insurance recoveries) incurred in recalling seven Cadbury branded product lines in the UK and two in Ireland have been excluded from the Underlying results of the Group. The impact on trading following the recall is included in Underlying results. Further details regarding the UK product recall are set out on page 74.
> Nigeria – in 2006, the Group's share of Cadbury Nigeria's adjustments to reverse the historical over-statement of financial results has been excluded from the Underlying equity accounted share of result in associates on the grounds that these adjustments had accumulated over a period of years and were a consequence of deliberate financial irregularities. The charge is not considered to represent the Underlying trading performance of the business. Further details regarding the overstatement of results of the Group's Nigerian business are set out on page 74.
> Release of disposal tax provisions – in 2006, we reached agreement with the UK tax authorities as to the tax due in connection with the disposal in 1997 of Coca-Cola & Schweppes Beverages, a UK bottling business and the disposal in 1999 of the Group's beverage brands in 160 countries. This has resulted in the release of unutilised provisions totalling £51 million within discontinued operations. The original disposal gains, net of tax, were treated as discontinued operations and excluded from the Underlying results in the relevant years. Consistent with the original treatment, the release of the unutilised provisions has been excluded from the Underlying earnings of the Group.
> Recognition of UK deferred tax asset – in 2005, we recognised a deferred tax asset in the UK for the first time, which resulted in a £104 million credit to the current year taxation charge. As a consequence of its size and one-off nature, this amount has been excluded from the Underlying earnings of the Group.

In order to provide comparable earnings information the tax impact (where applicable) of the above items is also excluded in arriving at Underlying earnings. In addition, from time to time the Group may make intra-group transfers of the legal ownership of brands and other intangible assets. These transfers may give rise to deferred tax gains or losses which are excluded from the Underlying results.

For the reasons stated above, "Underlying profit from operations", "Underlying earnings" and "Underlying earnings per share" are used by the Group for internal performance analysis. They are the primary information seen and used in any decision making process by the CEC. The Group also uses Underlying profit as a key component of its primary incentive compensation plans including the Annual Incentive Plan, the bonus scheme for all employees of the Group.

"Underlying profit from operations", "Underlying earnings" and "Underlying earnings per share" exclude certain costs, some of which affect the cash generation of the Group. Assessing and managing our performance on these measures alone might result in the concentration of greater effort on the control of those costs that are included in the Underlying performance measures. In order to mitigate this risk, we also manage the business, and set external targets for, cash flow. The costs of restructuring projects are deducted in arriving at the cash flow measures we use and hence the careful monitoring of these costs is ensured.

The CEC does not primarily review or analyse financial information on a GAAP basis for profit from operations, earnings or earnings per share. The CEC bases its performance analysis, decision making and employee incentive programmes based on "Underlying profit from operations", "Underlying earnings" and "Underlying earnings per share". For these reasons, and the other reasons noted above, we believe that these measures provide additional information on our Underlying performance trends to investors, prospective investors and investments analysts that should be provided alongside the equivalent GAAP measures.

Free Cash Flow

References to "Free Cash Flow" refer to the amount of cash we generate after meeting all our obligations for interest, tax and dividends and after all capital investment.

	2006 £m	2005 £m	2004 £m
Net cash from operating activities	**620**	**891**	**745**
Add back:			
Additional funding of past service pensions deficit	67	31	–
Income taxes paid on disposals	83	–	–
Less:			
Net capital expenditure	(300)	(261)	(259)
Net dividends paid	(270)	(257)	(257)
Free Cash Flow	**200**	**404**	**229**

Net capital expenditure includes purchases of property, plant and equipment (£384 million) less proceeds on disposal of property, plant and equipment (£84 million). Net dividends paid includes dividends paid (£272 million), dividends paid to minority interests (£4 million) less dividends received from associates (£6 million).

"Free Cash Flow" is not a defined term under IFRS and may not therefore be comparable with other similarly titled non-GAAP cash flow measures reported by other companies. Free Cash Flow is the measure we use for internal cash flow performance analysis and is the primary cash flow measure seen and used by the CEC. We believe that Free Cash Flow is a useful measure because it shows the amount of cash flow

remaining after the cash generated by the Group through operations has been used to meet purposes over which the Group has little or no discretion such as taxation and interest costs or those which are characteristic of a continuing business, for example capital expenditure and dividends. Free Cash Flow therefore represents the amount of cash generated in the year by the Underlying business and, provides investors with an indication of the net cash flows generated that may be used for, or are required to be funded by, other discretionary purposes such as investment in acquisitions, business disposals and the drawing and repayment of financing.

In 2006, payments of £67 million made into our principal Group defined benefit pension arrangements in respect of past service deficits have been excluded from Free Cash Flow. These payments are part of a wider pension funding strategy for the period from 2005 to 2008. We believe that the funding of these pension deficits is a discretionary use of Free Cash Flow comparable to the repayment of external borrowings and has therefore been added back in calculating the Free Cash Flow. We will continue this reporting practice in future years. We continue to report the cash cost of funding pension obligations arising in respect of current year service within Free Cash Flow.

In 2006, tax payments arising on disposals of £83 million, principally a £74 million payment to the UK tax authorities in settlement of a tax dispute arising on the 1997 disposal of Coca-Cola & Schweppes Beverages, have been excluded from Free Cash Flow. This aligns the treatment of the tax with the treatment of the disposal proceeds which are excluded from Free Cash Flow.

Net debt

References to "Net debt" refer to the total borrowings of our business, including both short-term and long-term bank loans, bonds and finance leases, after offsetting the cash and cash equivalents held by the business and our short-term investments.

The table below reconciles Net debt, as we define it, to the corresponding IFRS balance sheet captions.

	2006 £m	2005 £m	2004 £m
Short-term investments	126	47	21
Cash and cash equivalents	269	332	325
Short-term borrowings and overdrafts	(1,439)	(1,194)	(610)
Obligations under finance leases	(22)	(20)	(20)
Borrowings – non current	(1,810)	(3,022)	(3,520)
Obligations under finance lease – non current	(33)	(43)	(66)
Net debt	**(2,909)**	**(3,900)**	**(3,870)**

"Net debt" is not a defined term under IFRS and may not therefore be comparable with other similarly titled non-GAAP debt measures reported by other companies. Net debt is the measure we use for internal debt analysis. We believe that Net debt is a useful measure as it indicates the level of indebtedness after taking account of the financial assets within our business that could be utilised to pay down debt. In addition the net debt balance provides an indication of the net borrowings on which we are required to pay interest.

Explanation of performance analysis

Following the disposal of our beverage businesses in Europe, South Africa and Syria this component of our business has been classified as a discontinued operation in accordance with IFRS 5. IFRS requires that the results of these businesses be excluded from revenue, profit from operations, financing and taxation and the after-tax result be shown as a single line item on the face of the income statement below taxation, with a corresponding re-presentation of the prior periods. Hence in the analysis that follows all reference to revenue growth, Underlying profit from operations growth and profit from operations growth excludes the pre-disposal result of these beverage businesses. A separate discussion of the Discontinued operations is presented on page 77.

IFRS requires that the Cash flow statement reflects the cash flows of the Group, including discontinued operations, and hence all cash flow analysis, including references to Free Cash Flow, include the pre-disposal cash flows occurring within these businesses.

The review below starts with an overview that analyses revenue and Underlying profit from operations, including the impact of exchange rates, and acquisitions and disposals in 2006 and 2005. As part of the review there is an analysis of marketing, restructuring costs, amortisation and impairment of intangibles, non-trading items, UK product recall, IAS 39 adjustments, share of result in associates, financing, taxation, discontinued operations, minority interests, dividends and earnings per share.

Following the executive summary, there is a review of the comparative results of each of the continuing business segments. Each segment reviews revenue, Underlying profit from operations and restructuring costs. Underlying profit from operations refers to each segment's profit from operations before restructuring costs, non-trading items, amortisation and impairment of intangibles, exceptional items and IAS 39 adjustment. This is the measure of profit or loss for each reportable segment used by the CEC and segment management.

The meanings of certain terms used in this operating and financial review are as follows:

References to "**re-presented**" information refer to the re-presentation of 2005 information to classify the South Africa beverages business as discontinued. In 2005, our beverage businesses in Europe and Syria were classified as discontinued operations. In 2006 we announced and completed the disposal of our South African beverages business. As this disposal was part of our strategic decision to exit beverages outside the Americas and Australia it was also classified as discontinued operations. As required by IFRS we have re-presented the 2005 and 2004 financial statements on a comparable basis.

References to "**constant exchange rates**" refer to the method we use to analyse the effect on our results attributable to changes in exchange rates by recomputing the current year result using the prior year exchange rates and presenting the difference as exchange movements.

References to "**excluding acquisitions and disposals**" are to "**base business**" growth excluding the first 12 months' impact of acquisitions and the last 12 months' impact of disposals. This impact is referred to as growth from acquisitions and disposals. Once an acquisition has lapped its acquisition date it is included within the base business results as there is a comparative period in the prior year results to compare the performance to. Acquisitions and disposals are excluded from the base business results as this provides comparisons of base business performance for users of the accounts.

References to "**base business**" or "**normal growth**" refer to changes in revenue, Underlying profit from operations, Underlying earnings per share and other financial measures from year to year not attributable to exchange rate movements, or acquisitions and disposals or the impact of the 53rd week on 2004.

We believe that removing the effect of exchange rates, acquisitions and disposals (and where relevant to 53rd week) provides shareholders with a meaningful comparison of year on year performance of the base business. A reconciliation of the reported results is included on page 75.

Executive summary

	2006 £m	2005 re-presented £m	Reported currency growth %	Constant currency[2] growth %
Revenue	**7,427**	6,432	+15	+16
Underlying profit from operations[1]	1,073	1,025	+5	+6
Underlying operating margin	14.4	15.9		
Profit from operations	**909**	995	-9	-7
Underlying profit before tax[1]	931	865	+8	+9
Profit before tax	**738**	835	-12	-10
Discontinued operations	**642**	76		
Underlying EPS[1&3]	31.6	33.9	-7	-5
Reported EPS[3]	**56.4**	37.3		
Dividend per share	**14.0p**	13.0p	+8	n/a

[1] A full reconciliation between Underlying and reported measures is included in the segmental analysis on pages 109 to 110 and Note 13 on page 127.

[2] Constant currency growth excludes the impact of exchange rate movements during the period.

[3] In this review, EPS is presented on a basic total group basis and therefore includes the earnings contribution from the discontinued beverage businesses in Europe, South Africa and Syria. All other amounts are presented on a continuing basis.

Revenue in 2006 was £7,427 million. This was £995 million, or 15%, higher than in 2005. The net effect of exchange movements during the year decreased reported revenue by £60 million (or 1%), mainly driven by a weakening in the US Dollar, the Australian Dollar and the South Africa Rand.

In 2006, acquisitions, net of disposals, resulted in a £799 million increase in reported revenue relative to the prior year. The most significant acquisitions were Dr Pepper/Seven Up Bottling Group (now named Cadbury Schweppes Bottling Group or CSBG), which was acquired in May 2006, and Cadbury Nigeria in which we increased our stake from 46% to just over 50% in February 2006.

Base business revenue grew £256 million or 4%, with growth in all four of our continuing business segments, led by Americas Confectionery and Asia Pacific.

Underlying profit from operations (profit from operations before restructuring costs, non-trading items, UK product recall, amortisation and impairment of intangibles and the IAS 39 adjustment) was £1,073 million. This was £48 million or 5% higher than in 2005.

Consistent with the impact on revenue, currency movements had a £14 million (or 1%) adverse impact on Underlying profit from operations. The full-year impact of acquisitions, net of disposals, was £18 million due primarily to CSBG and Cadbury Nigeria.

After allowing for these items the base business grew by £44 million or 4%. Further explanations of these movements are set out in the business segment performance analysis starting on page 78.

Profit from operations at £909 million was down £86 million (9%) compared to 2005. This was principally driven by a £62 million increase in restructuring costs, the £30 million impact of the UK product recall, a £17 million increase in the amortisation of acquisition intangibles, a £15 million impairment of goodwill recognised in respect of Cadbury Nigeria and a £25 million decrease in the IAS 39 adjustment partially offset by the £48 million increase in Underlying profit from operations.

Reported profit before tax decreased by 12% to £738 million. The decrease reflected the decrease in profit from operations and a decrease in our share of our associates' profits partially offset by a decrease in net finance costs.

Earnings per ordinary share

	2006 pence	2005 pence	2004 pence
Reported earnings per share	**56.4**	**37.3**	**25.9**
Restructuring costs	6.4	4.2	8.2
Amortisation and impairment of intangibles	1.8	0.3	0.3
Non-trading items	(32.3)	(0.8)	(0.9)
UK product recall	1.4	–	–
Nigeria adjustments	1.1	–	–
IAS 39 adjustment – fair value accounting	0.5	(1.1)	n/a
Tax effect on the above	(1.2)	(0.9)	(2.8)
Release of disposal tax provisions	(2.5)	–	n/a
Recognition of UK deferred tax asset	–	(5.1)	–
Underlying earnings per share	**31.6**	**33.9**	**30.7**

Reported earnings per share increased by 51% or 19.1 pence principally reflecting the profit on disposal of our Europe, South African and Syrian beverage businesses offset by a reduction in the reported profit before tax, increases in restructuring costs and amortisation and impairment of intangibles and the UK product recall.

Underlying earnings per share (earnings before restructuring costs, non-trading items, amortisation and impairment of intangibles, exceptional items and the IAS 39 adjustment) decreased by 2.3 pence (7%) to 31.6 pence. Acquisitions, net of disposals, reduced full year earnings per share by 3.1p (9%). Movements in exchange rates reduced Underlying earnings per share by a further 2% or 0.5 pence. The base business grew Underlying earnings per share by 5% or 1.7 pence.

Sources of revenue and trading costs
Revenue is generated from the sale of branded confectionery products such as chocolate, gum and candy, and the sale of branded carbonated and non carbonated beverage products. Cash is usually generated in line with revenue and there are no significant time lags.

Direct trading costs consisted mainly of raw materials, which for confectionery products are cocoa, milk, sugar and sweeteners, various types of nuts and fruit, and packaging. The raw materials included in beverages are mainly high fructose corn syrup, water, flavourings and packaging. The other major direct cost is labour. Indirect operating costs include marketing, distribution, indirect labour, warehousing, sales force, innovation, IT and administrative costs.

Cash receipts and payments are generally received, and made, in line with the related income statement recognition. The main exceptions to this are:

> Mark-to-market gains and losses on financial derivatives. The main financial derivatives we employ are cocoa futures, interest rate swaps and currency forwards. At each balance sheet date the fair value of all open financial derivatives are determined and recorded on balance sheet. Where hedge accounting is not available this results in the immediate recognition within the income statement of the movements in the fair value. The associated cash flow occurs when the financial derivative contract matures.

> Up-front contractual payments in Americas Beverages, which are charged to the income statement over the period of the supply contract.

> Depreciation charges for capital expenditure, where the cash is utilised when the capital expenditure is made, and the depreciation is charged to the income statement to match utilisation of the asset.

UK product recall
On 23 June 2006, we recalled seven of our Cadbury branded product lines in the UK and two in Ireland.

The net direct costs of the UK product recall, which are excluded from our Underlying results, amounted to £30 million. This comprised £5 million relating to customer returns, £10 million cost of stock destroyed, £17 million of remediation costs and £5 million of increased media spend, offset by a £7 million insurance recovery.

We estimate that the adverse impact of the recall on our Underlying results was £30-35 million on revenue and £5-10 million (net of insurance recovery) on Underlying profit from operations.

Cadbury Nigeria
We increased our stake in Cadbury Nigeria from 46% to just over 50% in February 2006. In November, a significant over-statement of Cadbury Nigeria's financial position which had existed over a number of years was discovered. In the last few months, the Board of Cadbury Nigeria has undertaken a detailed review to fully understand the scale of the over-statement and put in place a robust recovery plan.

Cadbury Nigeria was reported as an associate for the seven weeks to 20 February 2006 and as a fully consolidated subsidiary for the remainder of the year. For 2006, it contributed a loss of £13 million or 0.6 pence to the Group's Underlying earnings and a loss of £53 million or 2.6 pence to the Group's reported earnings.

Reported earnings include a £23 million exceptional charge in associates reflecting our share of the adjustments required following the discovery of the significant over-statement of Cadbury Nigeria's financial position. As a consequence of this balance sheet over-statement, a full impairment review has been undertaken and management believes that it is appropriate to reduce the carrying value of Cadbury Nigeria in the Group's balance sheet. Accordingly, a £15 million impairment of the goodwill held in respect of Cadbury Nigeria has been recorded as at 31 December 2006. Given the exceptional nature of these charges they have been excluded from the Group's Underlying result. Following this impairment the operating assets of the business are approximately £60 million.

The Fuel for Growth programme
In mid-2003, the Group began to implement a major four-year cost reduction initiative with the aim of cutting direct and indirect costs by £360 million per annum by 2007. It was expected that the investment required to deliver the £360 million of cost savings would be £800 million, split between £500 million of restructuring and £300 million of capital expenditure. The 2006 Fuel for Growth restructuring spend of £123 million takes the cumulative restructuring spend to around £500 million (at constant exchange rates). The cost phase of the programme is now complete with further savings of £90 million anticipated in 2007.

Future trends

Future revenue and profit from operations may be affected by both external factors and trends that alter the environment in which we carry out our business as well as internal management strategies aimed at improving our business performance.

External factors

A discussion of the external factors that affect our business is contained in the 'Description of Business', primarily the sections titled 'The business today' (page 22); 'Market environment' (page 32) and 'Risk factors' (page 38).

Internal factors

A discussion of the Group's strategy is contained in the 'Strategic review' (pages 8 to 17).

2007 outlook

A discussion of our expectation of the 2007 Underlying trading performance is set out within the 'Strategic review' (page 15).

In 2007, following the completion of expenditure on the Fuel for Growth programme, future restructuring costs will be included in our Underlying results. Ongoing restructuring costs, other than acquisition integration and significant individual events, are expected to be approximately 1% of revenue.

In December 2005, we announced our intention to build a new green-field gum factory in Poland. Following commissioning of the factory in 2008, we will significantly reduce our gum supply requirements from Gumlink A/S and hence incur minimum penalties under the terms of the agreement. In addition, the costs of integrating CSBG will continue to be recognised outside Underlying in 2007. In 2007, we expect these charges to total around £30 million.

In 2007 the average interest rate on debt is expected to remain at approximately 5%.

The 2007 tax rate will be dependent on a number of factors including the possible resolution of tax cases with various tax authorities and the tax consequences of any acquisitions or disposals in the year. However we expect the tax on Underlying profits to be in the range of 30-31%.

Operating review 2006 compared to 2005

Executive summary

Analysis of results	2005 £m	Base business growth £m	Acquisitions/ Disposals £m	Exchange effects £m	**2006 £m**
Revenue	**6,432**	**256**	**799**	**(60)**	**7,427**
Change %		+4%	+12%	-1%	+15%
Underlying profit from operations	**1,025**	**44**	**18**	**(14)**	**1,073**
Change %		+4%	+2%	-1%	+5%
– Restructuring costs	(71)				(133)
– Amortisation and impairment of intangibles	(6)				(38)
– Non-trading items	25				40
– UK product recall	–				(30)
– IAS 39 adjustment	22				(3)
Profit from operations	**995**	**(46)**	**(26)**	**(14)**	**909**
Change %		-5%	-3%	-1%	-9%
Basic EPS – Continuing and Discontinued					
– Underlying	33.9	1.4	(3.2)	(0.5)	31.6
– Reported	**37.3**				**56.4**

The key highlights of 2006 were as follows:

> Underlying revenue growth of 4%, driven by innovation and by emerging markets revenues up 10%
> Underlying profit before tax +9%
> Confectionery revenues +4%; gum revenues +10%; Trident +23%
> Beverage revenues +4%; 60bps share gain in US carbonates; Dr Pepper +2%
> Underlying margins flat despite increases in commodity costs and growth investment
> Cadbury Schweppes Bottling Group performing in line with acquisition case (except where stated all movements are at constant exchange rates)

1 Review of 2006 Group income statement

(i) Revenue

Revenue at £7,427 million was £995 million or 15% higher than 2005 sales of £6,432 million. The net effect of exchange movements during the year was to decrease reported revenue by £60 million, mainly driven by a weakening in the US Dollar, the Australian Dollar and the South African Rand.

In 2006, acquisitions, net of disposals, resulted in a £799 million increase in reported revenue relative to the prior year. The most significant acquisitions were Dr Pepper/Seven Up Bottling Group (now named Cadbury Schweppes Bottling Group or CSBG), which was acquired in May 2006, and Cadbury Nigeria in which we increased our stake from 46% to just over 50% in February 2006.

Base business revenue grew £256 million or 4% with growth in all four of our continuing business segments.

Innovation and emerging markets continued to be the key drivers of performance. Successful innovations during the year included:
> The launch of Stride, a new gum brand using patented long-lasting flavour technology: Stride now has a 2.9% share of the $3.6 billion US gum market
> The further roll-out of our centre-filled gum technology in Europe under a range of local brands such as Trident, Hollywood, Stimorol and Dirol: annualised sales of centre-filled gum in the US and Europe are now over £100 million
> The launch of new premium chocolate products in the UK and Australia through the Cadbury and Green & Black's brands
> The launch of a range of super-premium Snapple teas giving us a strong position in this fast-growing functional beverage category
> The relaunch of 7 UP as 7 UP Natural in the US

Our emerging markets grew revenues by 10% with key successes including:
> 10% growth in candy following the launch of affordable offers in Africa, Asia and Latin America
> 12% growth in Latin America, driven by growth in all top 5 markets
> 17% growth in Asia Pacific, with strong performances in India and South East Asia

Confectionery revenues grew by 4% with the impact of the difficult trading in the UK reducing growth by 2%. Performance was stronger in the second half with an increase in the rate of innovation, particularly in Americas Confectionery. Emerging markets continued to grow strongly across all geographies at 10%.

In gum all regions contributed to a 10% revenue growth. We continued to see strong share gains in the US with Stride, our new longer lasting gum brand, ahead of its launch plan. In EMEA, the roll-out of centre-filled gum and strong growth in Southern Europe benefited performance. In Asia, we are seeing strong growth in sugar-free gum.

Chocolate had a more difficult year given the impact of the product recall in the UK with revenues up 1%. Outside the UK, growth remained healthy at +5%. In Asia Pacific, the growth was driven by premium and indulgent products in Australia and New Zealand, and by the launch of gifting and affordable chocolate offers in India.

Candy grew strongly in emerging markets at +10%, benefiting from our focus on affordable offers. However, performance in developed markets was impacted by weaker results from Halls in the US, due to lower demand during the cough and cold season, and from non-core brands. Overall candy revenues were flat.

Our beverage operations had another good year with like-for-like revenues ahead by 4%. Americas Beverages outperformed the US carbonated soft drinks market for the third year in a row, with like-for-like CSD revenue growth of 3%.

Despite flat Snapple revenues, total US non-carbonates revenues were ahead by 2%, with the core four brands (Snapple, Hawaiian Punch, Mott's and Clamato) ahead by 3%. Snapple's performance improved in the second half mainly due to the launch of Snapple super-premium teas.

Beverages in Australia and Mexico also performed well with revenue growth of 6% and 11% respectively.

(ii) Profit from operations
Profit from operations decreased £86 million (9%) to £909 million compared to 2005. This was driven by:
> an increase in restructuring costs of £62 million;
> an increase of £32 million in amortisation and impairment of intangible assets, due to the additional amortisation charge from definite life CSBG customer relationships and contracts and the impairment of £15m goodwill relating to the Group's investment in Cadbury Nigeria;
> a decrease of £25 million in the IAS 39 adjustment; and
> a £30 million charge arising from the UK product recall.

This was partially offset by the improved Underlying trading performance.

Underlying profit from operations (profit from operations before restructuring costs, non-trading items, amortisation and impairment of intangibles, the UK product recall and the IAS 39 adjustment) was £1,073 million. This was £44 million or 4% higher than in 2005.

Currency movements had a £14 million (1%) unfavourable impact on Underlying profit from operations. The full-year impact of acquisitions, net of disposals, was £18 million primarily due to CSBG and Cadbury Nigeria.

Underlying operating margin fell by 150 basis points to 14.4%. Excluding the impact of exchange, Underlying operating margin fell by 140 basis points. Excluding the impact of acquisitions and disposals (principally CSBG and Cadbury Nigeria) and exchange differences margins were flat.

Marketing
Marketing spend was £693 million in 2006, a 2% increase at actual exchange rates and a 3% increase at constant exchange rates. Marketing spend as a percentage of revenues was 9% compared with 11% in the prior year. Confectionery marketing rose 4% in line with revenue growth. All of the reduction is attributable to the beverage business and primarily reflects the acquisition of CSBG which has a lower marketing to revenue ratio than the Group. In addition, following the acquisition of CSBG, we changed some of our marketing approach which resulted in some spend previously categorised as marketing spend becoming promotional spend (and deducted from revenue) as we are now managing the total route to market.

Restructuring costs
Costs in respect of business restructuring were £133 million compared with £71 million last year. In 2006, the business restructuring related to the continued execution of the Fuel for Growth cost reduction initiative and the integration of CSBG.

	2006 £m	2005 £m
Integrating Adams	**–**	16
Other Fuel for Growth projects in the base business	123	55
Total Fuel for Growth	**123**	**71**
CSBG integration	10	–
Restructuring costs	**133**	**71**

Of this total charge of £133 million, £70 million was redundancy related and £21 million related to external consulting costs. The remaining costs consisted of asset write-offs, site closure costs, relocation costs and contract termination costs.

Business segment analysis

More detailed information on the restructuring activities in each business segment is provided in the business segments performance section from pages 78 to 80. The table below details the business segment analysis of restructuring costs.

Business segment analysis	2006 £m	2005 £m
Americas Beverages	21	6
Americas Confectionery	11	21
EMEA	65	22
Asia Pacific	15	15
	112	**64**
Central	21	8
Restructuring costs	**133**	**72**

The total Fuel for Growth restructuring spend amounted to £506 million, slightly above the total expected Fuel for Growth restructuring spend of £500 million.

Amortisation and impairment of intangibles

Amortisation and impairment of intangibles at £38 million was £32 million higher than in 2005. This increase reflects the impairment of £15 million of goodwill relating to the Group's investment in Cadbury Nigeria and the amortisation charge of £16 million arising on the definite life intangibles (brands and customer relationships) acquired with CSBG.

Non-trading items

During 2006, the Group recorded a net profit from non-trading items of £40 million compared to a profit of £25 million in 2005. The main items within non-trading items were:

> Profit of £17 million on the sale and leaseback of a UK distribution centre;
> Gain of £25 million arising from a factory insurance recovery following a fire in 2005 at our Monkhill confectionery business in the UK; and
> Profits on disposal of £17 million relating to two non-core beverage brands in the US: Grandmas Molasses and Slush Puppie, which were offset by write-downs to recoverable amount on other non-core businesses classified as held for sale.

IAS 39 adjustment

Fair value accounting under IAS 39 resulted in a charge of £3 million. This principally reflects the fact that in 2006 spot commodity prices and exchange rates were higher than the rates implicit in the Group's hedging arrangements and as used in the Underlying results.

(iii) Share of result in associates

In 2006, our share of the result of our associate businesses (net of interest and tax) was a loss of £16 million. This compares to a profit in 2005 of £28 million. Included in the current year loss is a £23 million charge representing our share of the accounting adjustments required to write-down overstated assets and recognise previously unrecognised liabilities following the discovery of the significant overstatement of results in Cadbury Nigeria over a number of years. Given its nature, the adjustments have been excluded from the Group's Underlying results. On an Underlying basis, the share of associates' profits has fallen by £21 million, principally reflecting the reclassification of CSBG and Cadbury Nigeria to subsidiaries.

(iv) Financing

The net financing charge at £155 million was £33 million lower than the prior year. After allowing for the £6 million impact of the IAS 39 adjustment to present financial instruments at fair value, the net Underlying financing charge was £149 million or £39 million lower than in 2005. The reduction in the charge reflects the impact of:

> The overall reduction in net debt following acquisitions and disposals made during the year, principally the disposal of Europe Beverages and the acquisition of CSBG;
> A reduction in average net debt arising from positive operating cash flows;
> A £14 million increase in the IAS 19 pension credit arising primarily from increased asset returns; offset by
> A marginal increase in the Underlying net interest rate to 5.1%.

The reduced profit from operations (partially offset by a reduced interest charge) resulted in the Group's interest cover falling to 5.0 times from 5.7 times in 2005. On an Underlying basis the interest cover increased from 5.9 times in 2005 to 6.2 times in 2006.

(v) Taxation

Underlying profit before tax from continuing operations rose by 8% to £931 million and by 9% at constant exchange rates. The continuing operations Underlying tax rate in 2006 was 30.4% as against 28.3% in 2005 giving an Underlying tax charge of £283 million in 2006 compared to £243 million in 2005. The increase in the tax rate reflects the increased exposure of our tax charge to higher rate tax jurisdictions, in particular the US.

Reported profit before tax fell by 12% to £738 million reflecting increased restructuring costs, amortisation and impairment of intangibles, UK product recall and adverse movement on the IAS 39 adjustment partially offset by the increased Underlying trading result.

(vi) Discontinued operations: Europe, South Africa and Syria Beverages

Discontinued operations at £642 million included an insignificant contribution arising on the trading in the pre-disposal period and a net profit on disposal of our beverage businesses in Europe, South Africa and Syria of £591 million. In addition, a £51 million write-back of total tax provisions has been recorded following agreement with the UK tax authorities in respect of the disposal in 1997 of Coca-Cola & Schweppes Beverages, a UK bottling business and the disposal in 1999 of the Group's beverage brands in 160 countries.

(vii) Minority interests

In 2006, the Group companies in which we do not own 100% contributed an aggregate loss to the Group. The minority interests share of these losses was £4 million, £15 million lower than the net profits attributable to minority interests in 2005. The movement was due to recognition of the minority interest share of the losses incurred by Cadbury Nigeria after our ownership interest increased to just over 50% and the reduction in the minority interests share in the profits of Kent, our Turkish confectionery business, following our purchase of a further 30% stake in the business.

(viii) Dividends

The Board has proposed a final dividend of 9.90 pence, up from 9.00 pence in 2005, an increase of 10%. Including the interim dividend of 4.10 pence, the total dividend for 2006 is 14.00 pence, an 8% increase on the 13.00 pence dividend in 2005. The Underlying dividend cover decreased to 2.3 times from 2.6 times in 2005 reflecting the reduced Underlying earnings and increased dividend. Further dividend information for shareowners is given in shareowner information on page 186.

(ix) Earnings per share

Basic reported earnings per share rose by 51.1% to 56.4 pence principally reflecting the profit on disposal of the Europe Beverage business.

Underlying earnings per share (earnings before restructuring costs, non-trading items, amortisation and impairment of intangibles, exceptional items, IAS 39 adjustment and any related tax effect) at 31.6 pence was 7% behind last year. At constant exchange rates Underlying earnings per share were down 5%. The higher Underlying tax rate of 30.4% depressed earnings per share by 3%. Excluding the dilutive impact of acquisitions and disposals (principally our beverage businesses and Cadbury Nigeria), Underlying earnings per share rose by 4% at constant rates and 2% at actual rates.

(x) Effect of exchange rates and inflation on 2006 reported results

Over 80% of the Group's revenues and profits in 2006 were generated outside the United Kingdom. The Group's reported results have been affected by changes in the exchange rates used to translate the results of non-UK operations. In 2006 compared with 2005, the largest exchange rate impact on the Group's results was the weakening in the US Dollar, the Australian Dollar and South African Rand.

In 2006, movements in exchange rates decreased the Group's revenue by 1%, Underlying pre-tax profit by 1% and Underlying earnings per share by 2%. The impact on Underlying profit from operations was consistent with the impact on revenues.

General price inflation in countries where the Group has its most significant operations remained at a low level throughout the year and in general terms was within the 1% to 4% range. In certain developing markets, notably Venezuela, Turkey, Brazil, Russia, Nigeria and Argentina, the rate of inflation was significantly higher than this range, but the impact was not material to the Group results.

2. 2006 compared to 2005 – Business segments performance

Americas Beverages

Full year results (£m)	2005	Base business	Acquisitions/ Disposals	Exchange effects	2006
Revenue	1,781	62	738	(15)	**2,566**
		+3%	+42%	-1%	**+44%**
Underlying profit from operations	524	35	29	(4)	**584**
		+7%	+5%	-1%	**+11%**
Underlying operating margins	29.4%				**22.8%**
– excluding CSBG	29.4%				**30.2%**

The results of Americas Beverages in 2006 were impacted by:

> Good revenue growth despite declining volumes in US carbonated soft drinks market
> Profit growth of 7% benefiting from innovation and alignment with bottling operation
> The integration of CSBG on track

Americas Beverages delivered good revenue and profit growth despite declining volumes in the US carbonated soft drinks market, significant cost headwinds and considerable organisational change as the bottling acquisitions were integrated. Performance benefited both from further successful innovations and from the greater focus and alignment through our newly consolidated bottling operations.

In the US, our share of the carbonated soft drinks market grew by 60 basis points, the third successive year of share increases. Volumes and shares were ahead for nearly all of our key flavour brands – Dr Pepper, Sunkist, A&W and Canada Dry. 7 UP volumes were down for the year as a whole, but ahead 7% in the second half following its reformulation and relaunch as 7 UP Natural. Dr Pepper volumes benefited from continued gains in fountain, particularly for Diet Dr Pepper.

Non-carbonates revenues were up 2%, with the core four brands (Snapple, Mott's, Hawaiian Punch and Clamato) ahead by 3%. Snapple was flat for the year as a whole with a better second half following the launch of a range of Snapple super-premium teas and improved distribution through CSBG.

Mexico continued to grow at double-digit rates although the second half was more difficult as competitive activity became more aggressive.

The integration of Dr Pepper/Seven Up Bottling Group and the other bottler and distribution businesses, now collectively known as Cadbury Schweppes Bottling Group or CSBG, is going well. The financial results for 2006 were in line with the acquisition case and we began to see the strategic benefits of the acquisition in terms of: reduced complexity and costs; aligned brand and channel strategies; and better engagement with and service to our retail partners. The performance of our brands through CSBG improved and growth in franchise brands such as Monster and Glaceau Vitamin Water remained strong.

Outside Underlying profit from operations were restructuring costs of £21 million. These costs reflected Fuel for Growth projects and £10 million charge relating to the integration of CSBG. Profit on non-trading items was £17 million representing the gains made on the disposal of non-core brands Grandma's Molasses and Slush Puppie. The region also recorded an amortisation charge of £19 million relating primarily to the customer relationships and contracts acquired in the year as part of the CSBG transaction.

Americas Confectionery

Full year results (£m)	2005	Base business	Acquisitions/ Disposals	Exchange effects	2006
Revenue	1,228	92	–	10	**1,330**
		+7%	–	+1%	**+8%**
Underlying profit from operations	172	34	–	1	**207**
		+20%	–	–	**+20%**
Underlying operating margins	14.0%				**15.6%**

The results of Americas Confectionery in 2006 were impacted by:

> Revenue growth of 7%, driven by gum growth

> Margin growth of 160bps following further improvements in Canada and Brazil

> Emerging markets growth with revenue growth of 12%

Americas Confectionery had another excellent year with good results in nearly all our key markets. Further improvements in profitability in Canada and Brazil benefited margins, which were 160 basis points ahead.

Gum revenue growth was strong, notably in the US, where results were outstanding with our share growing 300 basis points in a market which grew by 8%. Flavour, packaging and format innovation on our main Trident brand and the launch of Stride in June were the key drivers of our share gain.

Halls growth in Latin America remained strong as we rolled out low-cost affordable offers through our well-established distribution networks. In the US, while Halls had a slow start as a result of a weak cough and cold season, performance improved in the fourth quarter following increased innovation and marketing support. Overall however, Halls growth was disappointing.

In Canada, profitability continues to benefit from our focus on a smaller, more profitable core range. However, the second half was impacted by significant structural change to the important wholesale trade.

Emerging markets continued to grow strongly up 12%, with an improved second half innovation programme in Mexico boosting performance.

Outside Underlying profit from operations were restructuring costs of £11 million. These costs reflect the completion of the spend on the Fuel for Growth initiative. Non-trading items contributed a loss of £14 million. This charge represented a write-down to recoverable value of the non-core element of our Canadian confectionery business which is classified as held for sale at 31 December 2006 following the announcement of our intention to dispose.

Europe, Middle East and Africa (EMEA)

Full year results (£m)	2005	Base business	Acquisitions/ Disposals	Exchange effects	2006
Revenue	2,257	19	61	(19)	**2,318**
		+1%	+3%	-1%	**+3%**
Underlying profit from operations	328	(37)	(11)	(4)	**276**
		-11%	-4%	-1%	**-16%**
Underlying operating margins	14.5%				**11.9%**
– excluding Nigeria	14.5%				**12.8%**

The results of EMEA in 2006 were impacted by:

> Lower revenue growth, reflecting the difficult year in the UK

> Margin reduction due to challenging trading in UK and Russia and investment behind growth

> Strong emerging market growth of 9% in Africa and the Middle East

In Europe, Middle East and Africa ("EMEA"), like-for-like revenues were only modestly ahead as a result of significant challenges in a number of markets. Profits were materially lower driven by declines in the base business and losses from Cadbury Nigeria where we moved to majority ownership. The profit reduction in the base business was due to difficult trading in the UK and Russia and by a significant increase in investment, particularly in the second half. We estimate that the product recall in the UK reduced revenues and Underlying profit from operations by £30-£35 million and £5-£10 million respectively. The profit impact was reduced by an insurance recovery.

In the UK, despite the poor third quarter which was impacted by the combination of the hot summer and the product recall, the confectionery market was broadly flat year-on-year. We maintained our share of the total market at 31% and our chocolate share at 34%. Our business benefited from the combination of strong performance in seasonal products, particularly at Easter, and increased innovation and marketing activity in the fourth quarter.

Our gum business in the region performed well driven by a significant increase in investment behind; the further roll-out of centre-filled gum into existing and new markets (Spain, Portugal, Norway, Denmark and Russia); the launch of Trident into Turkey; and the roll-out of bottle gum in nine markets across Europe. As a result, we saw strong growth in our businesses in Southern and Northern Europe with significant share gains in Spain, Denmark and Norway. In Russia, while we had a difficult year with results impacted by the combination of an exceptionally cold start to the year and trade destocking, gum share trends were encouraging in the fourth quarter.

Our emerging market business in Africa and the Middle East grew by 9%. This was driven by South Africa where increased investment behind the expansion of our affordable confectionery offers across our entire confectionery range resulted in strong growth in chocolate, candy and gum.

Outside Underlying profit from operations were restructuring costs of £65 million. These costs include the rationalisation of our Irish production facilities (£29 million) and the reorganisation of the UK distribution facilities (£9 million). In addition, an impairment charge of £15 million relating to the goodwill held in respect of Cadbury Nigeria and £30 million charge relating to the UK product recall were recorded. Non-trading items contributed a gain of £38 million primarily related to a profit of £17 million on disposal of a UK distribution centre and an accounting gain of £25 million arising from a factory insurance recovery following a fire in 2005 at our Monkhill confectionery business in the UK.

Asia Pacific

Full year results (£m)	2005	Base business	Acquisitions/ Disposals	Exchange effects	2006
Revenue	1,157	84	–	(36)	**1,205**
		+7%		-3%	**+4%**
Underlying profit from operations	157	15	–	(7)	**165**
		+10%		-5%	**+5%**
Underlying operating margins	13.6%				**13.7%**

The results of Asia Pacific in 2006 were impacted by:
> Strong revenue growth of 7%, driven by emerging market growth of 17%
> Margin improvement despite significant increase in commodity input costs
> Market share gains across the region

Our Asia Pacific region had another good year with strong growth in both developed (+5%) and emerging markets (+17%). Margins were ahead in the year with operational leverage and continued tight cost control more than offsetting significant commodity headwinds.

In Australia, confectionery revenues grew by 5% with successful launches in premium and dark chocolate and continued growth of The Natural Confectionery Company range in candy. In beverages, we grew our share of non-carbonates following the relaunch of Spring Valley. In carbonates, while we lost share, the market grew strongly during the year and revenues were ahead by 5%.

In New Zealand, a 300bps share gain was driven by strong growth in chocolate and candy. In Japan, although the gum market was soft, we grew our share by over 150bps following the relaunch of Recaldent and Clorets.

In emerging markets, performance in India was exceptional with revenues ahead by over 20% as we increased innovation and marketing support behind the whole of our chocolate, candy and food beverage range. In South East Asia, our key markets of Thailand, Malaysia and Singapore performed well with strong top-line growth and share gains in each market. In Thailand, our share of gum rose by 300bps to 61.6% driven by Trident sugar-free. During the year, we entered the Vietnamese market through a third party distribution arrangement.

Outside Underlying profit from operations were restructuring costs of £15 million. These costs were all incurred as part of our Fuel for Growth initiative and primarily related to head count reductions.

Central

Full year results (£m)	2005	Base business	Acquisitions/ Disposals	Exchange effects	2006
Revenue	9	(1)	–	–	**8**
		-11%			**11%**
Underlying profit from operations	(156)	(3)	–	–	**(159)**
		-2%	–	–	**-2%**
Underlying operating margins	n/a				**n/a**

Central revenue arises on the rendering of research and development services to third parties.

Central costs have remained broadly flat at £159 million.

Outside Underlying profit from operations were restructuring costs of £21 million. These costs were all incurred as part of our Fuel for Growth initiative and primarily relate to the IT transformation project and the outsourcing of shared business services.

Operating review 2005 compared to 2004

Reference to "**excluding the 53rd week**" reflects the fact that in 2005, Cadbury Schweppes' financial year consisted of 52 weeks. In 2004, Cadbury Schweppes had an additional week's trading: the statutory results for 2004 were for the 53 weeks to 2 January 2005. The extra week in 2004 resulted in additional revenue and profit from operations compared to 2005. In order to provide more meaningful comparisons and consistent with the approach adopted in the prior year, estimates of the additional revenues and profits generated in the 53rd week of 2004 have been excluded from the analysis of base business (2004-52 weeks). Management believes this provides the most consistent Underlying 52 week like-for-like analysis. In 2004, it was not possible to quantify the exact profit impact of the 53rd week and in determining the impact on the prior year, management had to exercise judgement. Operating costs were allocated on a reasonable and consistent basis across the Group. These costs included direct costs allocated as a determinable gross margin percentage consistent with base business, costs separately identifiable as relating to the 53rd week and indirect costs pro-rated with additional days of sales. Interest has been adjusted for on a pro-rated basis. These adjustments were tax effected at the Group's 2004 Underlying tax rate.

Executive summary

Analysis of results	2004 £m	Base business growth £m	Estimated 53rd week £m	Acquisitions/ Disposals £m	Exchange effects £m	2005 £m
Revenue	**6,012**	**372**	**(49)**	**(6)**	**103**	**6,432**
Change %		+6%	(1%)	0%	+2%	+7%
Underlying profit from operations	**947**	**72**	**(11)**	**1**	**16**	**1,025**
Change %		+8%	(2%)	0%	+2%	+8%
– Restructuring costs	(139)					(71)
– Brand amortisation	(7)					(6)
– Non-trading items	18					25
– IAS 39 adjustment	n/a					22
Profit from operations	**819**	**170**	**(11)**	**2**	**15**	**995**
Change %		+21%	(2%)	0%	+2%	+21%
Basic EPS – Continuing and Discontinued						
– Underlying	30.7p					33.9p
– Reported	**25.9p**					**37.3p**

The key highlights of 2005 were as follows:

> Revenue growth ahead of goal ranges at 6.2% (5.4% including Europe Beverages)
> 6% confectionery growth: Trident +21%; Halls +9%; Cadbury Dairy Milk +7%
> 6% beverage growth: US carbonates outperform the market, driven by Dr Pepper
> Underlying operating margins +30bps in challenging cost environment
> Underlying profit before tax +12% at £865 million (+13% as reported)
> Underlying earnings per share +9% at 33.9 pence (+10% as reported)
> Significant increase in Free Cash Flow to £404 million
> Adams performance strong and growing ahead of the acquisition plan
> Successful sale of Europe Beverages for €1.85 billion (£1.26 billion)

(except where stated all movements are at constant exchange rates and exclude the impact of the 53rd week in 2004)

1 Review of 2005 Group income statement

(i) Revenue

Revenue at £6,432 million was £420 million or 7% higher than 2004 sales of £6,012 million. The net effect of exchange movements during the year was to decrease reported revenue by £102 million, mainly driven by a strengthening in the Australian Dollar and Mexican Peso.

In 2005, acquisitions, net of disposals, resulted in a £6 million reduction in reported revenue relative to the prior year. The reduction was driven principally by the disposal of Piasten, our German confectionery business, offset by additional revenues arising following our acquisition of Green & Black's. The absence of a 53rd week in 2005 reduced revenues by an estimated £49 million, or 1%.

Base business revenue grew £372 million or 6% driven by growth in all four of our business segments, led by the Americas Confectionery and Asia Pacific business segments. Growth was also broadly based across categories and brands. The growth rate was the highest growth rate for over a decade, as we began to see the benefits of our investments in our brands, capabilities and people.

Confectionery revenues grew by 6.3% reflecting a combination of healthy market growth and market share gains. We gained share in 16 out of our top 20 markets with innovation in all categories playing a key role.

All our major brands grew strongly during the year. The ex-Adams brands, including Halls, Trident, Dentyne and the Bubbas, continued to grow strongly with revenues up 11% (2004: +11%). Cadbury Dairy Milk revenues were 7% ahead as we rolled out the successful master-branding concept to Canada and South Africa. Trident grew by 21%, with sales growth boosted by the launch of Trident Splash, a centre-filled

gum, in North America and a number of Continental European markets. Dentyne grew by 5% following the launch of Dentyne soft chew in the US and Canada, and the expansion of the brand into the Malaysian market. Halls revenues were ahead by 9%, benefiting from growth in the EMEA business segment where we continue to broaden Halls' distribution by using our existing route to market.

Emerging markets, which account for around 30% of our confectionery revenues, grew by 12% overall. All markets contributed to this performance with confectionery revenues ahead by 13% in Latin America; by 10% in Africa; by 32% in Russia and, by 11% in Asia Pacific. Developed market growth of 4% was driven by US, Canada, Australia and Japan. In the UK, a 2% rise in revenues was achieved in a year in which innovation activity was reduced to allow the business to focus on a major systems implementation programme. Green & Black's (acquired in May 2005) continued to perform strongly with year-on-year revenue growth of 49%.

Our beverage businesses in the Americas and Australia grew sales by 6.2% during the year with all markets performing strongly. Our business in North America continued to reap the benefits of consolidating three separately run businesses into one. In Australia, we are leveraging our increased scale following the integration of our full system beverage business with our confectionery operations.

In the Americas, our US carbonates business significantly outperformed the market during the year with a 40 basis points increase in market share to 17.0%. Dr Pepper was the primary driver of performance with volumes ahead by 6% as Dr Pepper Cherry Vanilla (launched in late Q4 2004) moved into national distribution at the beginning of the year. Non-carbonate volumes in the US were up 5% with the improved performance reflecting our focus on core brands and some sell-in to the trade ahead of a January price increase. In Mexico, we continued to generate strong profitable growth with revenues up 14% in a competitive market. In Australia, we had another good year with sales up 7% as we focused on a smaller range of brands.

(ii) Profit from operations
Group profit from operations increased £176 million (21%) to £995 million compared to 2004. This was driven by an improved Underlying trading performance, reduced restructuring costs and the impact of the IAS 39 adjustment.

Underlying profit from operations (profit from operations before restructuring costs, non-trading items, brand intangibles amortisation and the IAS 39 adjustment) was £1,025 million. This was £78 million or 8% higher than in 2004.

Currency movements had a £16 million (2%) favourable impact on Underlying profit from operations. The full-year impact of acquisitions, net of disposals, was minimal at £1 million as the Green & Black's profits more than offset the impact of the Piasten disposal. The lack of the 53rd week in 2005 gave rise to an estimated £11 million reduction in Underlying profit from operations.

Underlying operating margins increased by 10 basis points to 15.9% from 15.8%. Exchange rate movements had an insignificant impact on margins.

After excluding the impact of the 53rd week in 2004 margins grew by 30 basis points with Fuel for Growth savings of £90 million (excluding Europe Beverages) more than offsetting sharply escalating raw material and oil related costs and higher investment behind growth initiatives. In 2005, we invested an additional £75 million in growth and capability related initiatives, including innovation, information technology, science and technology, commercial and sales force capabilities, and the understanding of our consumers.

Marketing
Marketing expenditure during the year was £680 million, an increase of £17 million (3%) over 2004 and an increase of 1% at constant currency. This represents a marketing to sales ratio of 10.7%.

Restructuring costs
Costs in respect of business restructuring were £71 million compared with £139 million last year.

In 2005, all of the business restructuring related to the continued execution of the Fuel for Growth cost reduction initiative.

	2005 £m	2004 £m
Integrating Adams	16	55
Other Fuel for Growth projects in the base business	55	53
Total Fuel for Growth	**71**	**108**
Write down of IT assets	–	31
Restructuring costs	**71**	**139**

Of this total charge of £71 million, £37 million was redundancy related and £18 million related to external consulting costs. The remaining costs consisted of asset write-offs, site closure costs, relocation costs and contract termination costs.

Business segment analysis
More detailed information on the restructuring activities in each business segment is provided in the business segments performance section from pages 84 to 86. The table below details the business segment analysis of restructuring costs.

Business segment analysis	**2005 £m**	2004 £m
Americas Beverages	6	23
Americas Confectionery	21	41
EMEA	21	21
Asia Pacific	15	18
	63	**103**
Central	8	36
	71	**139**

The total Fuel for Growth restructuring spend undertaken to date amounts to £374 million, or 75% of the total expected Fuel for Growth restructuring spend of £500 million.

Amortisation of brand intangibles
Amortisation of brand intangibles at £6 million was £1 million lower than in 2004.

Non-trading items
During 2005, the Group recorded a net profit from non-trading items of £25 million compared to a profit of £18 million in 2004. The main items within non-trading items were:
> a £20 million profit from the disposal of Holland House Cooking Wines;

- > a loss of £1 million on the disposal of Piasten, our German confectionery subsidiary;
- > a net gain of £4 million on the sale of trade investments; and
- > a net profit of £2 million through disposals of surplus properties.

IAS 39 adjustment

Fair value accounting under IAS 39, which was adopted from 2 January 2005, resulted in a credit of £22 million to our reported results principally reflecting the fact that spot commodity prices and exchange rates were lower than the rates implicit in the Group's hedging arrangements and as used in the Underlying results.

(iii) Share of result in associates

The Group's share of profits in associates (net of interest and tax) at £28 million was £6 million higher than in 2004, withthe year-on-year increase due to improved trading performance from our US bottling associate, Dr Pepper/Seven Up Bottling Group and the 5% increase in the Group's stake in June 2005.

(iv) Financing

The net financing charge at £188 million was £17 million lower than the prior year. There is no net impact of IAS 39 adjustments on the net financing charge. The reduction in the charge reflects the impact of:

- > the incremental interest charges of £5 million resulting from the additional borrowing required to redeem the Group's US$400 million Quarterly Income Preferred Stock ("QUIPS") in April 2005; offset by:
- > a reduction in average net borrowing arising from positive operational cash flows in the year; and
- > the impact of exchange rates and the absence of the additional week relative to 2004.

The combination of a reduced interest charge and increased profit from operations resulted in the Group's interest cover rising to 5.7 times from 4.4 times in 2004

(v) Taxation

Underlying profit before tax rose by 13% to £865 million and by 12% at constant exchange rates and after allowing for the additional week's trading in 2004. The Underlying tax rate in 2005 (excluding Europe Beverages) was 28.3% as against 25.0% in 2004.

Reported profit before tax rose by 31% to £835 million reflecting the improved Underlying performance of the business, lower restructuring costs and the favourable impact of fair value accounting under IAS 39. In 2005, we have concluded that recognition of a net deferred tax asset in the UK is now appropriate. This has resulted in a credit of £104 million to the current year tax charge which, given its size and one-off nature, has been excluded from the Group's Underlying tax charge but is included in the reported tax charge of £135 million.

(vi) Discontinued operations

Revenue was £725 million, flat versus 2004, down 1% at constant exchange rates. Underlying profit from operations of £120 million represented a 3% decline, or 4% at constant currency. The 53rd week in 2004 had a negligible impact on the year-on-year comparatives. The performance of the Europe Beverages business was adversely impacted during the year by a combination of weak markets in France and Spain and the management time spent on the sale process.

The net profit from discontinued operations of £76 million consists of Underlying profit from operations of £120 million, restructuring costs of £15 million, a financing cost of £1 million, taxation of £20 million and disposal costs of £9 million.

The Underlying tax charge for discontinued operations is £35 million representing a rate of approximately 27.5%. In connection with the disposal, the Group has recorded a deferred tax credit of £11 million arising on the transfer of certain intellectual property assets out of the Europe Beverages companies prior to disposal. This has been excluded from the Underlying tax rate of discontinued operations.

(vii) Minority interests

Profit attributable to minority interests in 2005 of £11 million was £11 million lower than 2004. The decrease reflects the redemption of the Group's $400 million Quarterly Income Preferred Stock (QUIPs) in April 2005.

(viii) Dividends

The Board proposed a final dividend of 9.00 pence, up from 8.70 pence in 2004, an increase of 3%. Including the interim dividend of 4.00 pence, the total dividend for 2005 was 13 pence, a 4% increase on the 12.5 pence dividend in 2004. The Underlying dividend cover increased to 2.6 times from 2.5 times in 2004.

(ix) Earnings per share

Basic reported earnings per share rose by 44% to 37.3 pence principally reflecting the improved business performance, the reduction in restructuring costs and the £104 million credit arising on the recognition of a deferred tax asset in the UK.

Underlying earnings per share (earnings before restructuring costs, non-trading items, brand intangibles amortisation, the IAS 39 adjustment and the recognition of a deferred tax credit in the UK) at 33.9 pence were 10% ahead of last year. At constant exchange rates and excluding the impact of the additional week in 2004, Underlying earnings per share were up 9%.

(x) Effect of exchange rates and inflation on 2005 reported results

Over 80% of the Group's revenues and profits in 2005 were generated outside the United Kingdom. The Group's reported results have been affected by changes in the exchange rates used to translate the results of non-UK operations. In 2005 compared with 2004, the biggest exchange rate impact on the Group's results was the strengthening in the Australian Dollar and Mexican Peso.

In 2005, movements in exchange rates increased the Group's revenue by 2%, Underlying pre-tax profit by 2% and Underlying earnings per share by 2%. The impact on Underlying profit from operations was consistent with the impact on revenues.

General price inflation in countries where the Group has its most significant operations remained at a low level throughout the year and in general terms was within the 1% to 3% range. In certain developing markets, notably Venezuela, Turkey, Brazil, Russia and Argentina, the rate of inflation was significantly higher than this range, but the impact was not material to the Group results.

2. 2005 compared to 2004 – Business segments performance

Americas Beverages

Full year results (£m)	2004	Base business	Acquisitions/ Disposals	53rd week est	Exchange effects	**2005**
Revenue	1,686	99	–	(19)	15	**1,781**
		+6%	–	-1%	+1%	**+6%**
Underlying profit from operations	503	24	–	(6)	3	**524**
		5%	–	-1%	0%	**+4%**
Underlying operating margins	29.8%					**29.4%**

The results of Americas Beverages in 2005 were significantly impacted by:
> Strong revenue performance with revenue growth of 6%
> Margins adversely impacted by 40 basis points reflecting a challenging cost environment
> Improved non-carbonated soft drinks performance in the US with revenue ahead 4%
> Continued good growth in Mexican beverages where revenue grew by 14%

Americas Beverages had another good year. Revenues grew by 6% for the year and 7% in the second half reflecting the combination of strong carbonated soft drink performance and improving non-carbonated soft drink (non-CSD) sales.

In the USA, carbonated soft drink revenues rose by 6%. We outperformed the carbonated soft drink market for the second year in a row, gaining 40 basis points of share to 17.0%. Performance was driven by a 6% volume growth in Dr Pepper which benefited from the national roll-out of Dr Pepper Cherry Vanilla, strong growth in diets and fountain. Performance of our flavour brands was impacted by 7 UP where volumes fell by 8%.

Non-carbonated soft drink performance in the USA improved through the year with revenues ahead by 4% in the year and 8% in the second half reflecting strong performance from the core four brands (Snapple, Mott's, Clamato and Hawaiian Punch) and some buy-in by our customers ahead of price increases scheduled for the first quarter of 2006. Revenues in Mexico were up by 14%.

Margins were slightly lower year-on-year mainly due to the sharp increase in oil, glass, PET and transport related input costs. Price increases on our non-carbonated soft drink portfolio were taken in late 2005 and early 2006 in order to recover these cost increases.

Americas Confectionery

Full year results (£m)	2004	Base business	Acquisitions/ Disposals	53rd week est	Exchange effects	**2005**
Revenue	1,093	111	–	(3)	27	**1,228**
		+10%	0%	0%	2%	**+12%**
Underlying profit from operations	143	26	–	(1)	4	**172**
		+18%	0%	(1%)	3%	**+20%**
Underlying operating margins	13.1%					**14.0%**

The results of Americas Confectionery in 2005 were significantly impacted by:
> Excellent revenue growth of 10%, driven by power brands
> Market share gains reflecting strong innovation pipeline
> Continued margin improvement – led by Canada
> Strong growth in emerging markets with revenue growth of 13%

Americas Confectionery had another excellent year with revenue ahead by 10% and margins up by 100 basis points to 14.0%. Performance was balanced across all territories and was driven by our five power brands, Trident, Dentyne, Halls, Cadbury and the Bubbas, which account for almost 70% of sales. Growth was particularly strong in Trident up 22%, where we had major innovation initiatives during the year including the launch of Trident Splash in the US and Canada.

In North America, revenue growth in the US of 11% was led by gum. A strong innovation pipeline, including the launch of Trident Splash and Dentyne soft chew drove healthy market share gains particularly in the second half. We gained 80 basis points of gum share during the year with the latest four week period over 300 basis points up at 30%. In Canada, branded revenue rose by 8% and total revenue by 4% reflecting a focus on a smaller range of profitable brands. This focus on more profitable growth led to over 150 basis points increase in margins in Canada.

In emerging markets, revenue grew by 13% with double-digit growth in all territories, including Mexico up 10% and Brazil up 15%.

Strong margin performance was due to the combination of revenue growth, focus on profitable growth in Canada and the cost benefit arising from the successful execution of key Fuel for Growth projects including the consolidation of production in Brazil and the transfer of Halls production from Manchester to Canada and Colombia.

Outside Underlying profit from operations were restructuring costs of £21 million. These costs reflect the completion of the Adams integration projects in the US (£6 million), including the completion of the transition off the Pfizer shared services system. Restructuring costs in Canada (£9 million), reflected the costs of transition off the Pfizer shared services systems as well as the cost required to rationalise the Canadian brand range and packaging options. Further costs were incurred, mainly in Brazil, following the closure of the Cumbica site and transfer of production to Bauru.

Europe, Middle East and Africa (EMEA)

Full year results (£m)	2004	Base business	Acquisitions/ Disposals	53rd week est	Exchange effects	**2005**
Revenue	2,173	82	(7)	(18)	27	**2,257**
		4%	0%	(1%)	1%	**4%**
Underlying profit from operations	316	12	1	(3)	2	**328**
		3%	0%	(1%)	1%	**3%**
Underlying operating margins	14.5%					**14.5%**

The results of EMEA in 2005 were significantly impacted by:

> Revenue growth of 4%, driven by our emerging markets in Africa and Russia
> Developed market revenue growth was modest, reflecting the difficult retail environment in Continental Europe
> UK revenue ahead 2%, reflecting a planned reduction in innovation at the time of a major new IT implementation
> Margins were flat year-on-year, with Fuel for Growth savings offset by IT implementation costs of £20 million in the UK

The 4% increase in revenue in the EMEA region was driven by our emerging market businesses in Africa and Russia, which in total grew by 11%. Developed market sales were modestly ahead reflecting the difficult retail environment in Continental Europe, particularly in France, and the planned reduction of innovation activity in the UK as we installed a major new information system.

In the UK, revenue was ahead by 2%. Our overall market share rose by 10 basis points due to a focus on the Maynard and Bassett master-brands in sugar and growth in premium chocolate. The Green & Black's organic chocolate range grew year-on-year by 49%.

While Western European markets remain difficult, our focus on the growing gum and value-added sugar categories enabled our businesses in the region to register modest growth overall.

We grew our gum share in most countries, with share boosted by the highly successful launch of centre-filled gum under local brand names: such as Trident Splash in Greece; Hollywood Sweet Gum in France; and Stimorol Fusion in Sweden, Switzerland and Benelux.

Revenue in Russia rose by 32% benefiting from investments in upgrading the quality of our Dirol and Stimorol brands using Adams product technology and in sales force capabilities. Strong growth in South Africa was driven by the re-launch of Cadbury Dairy Milk.

Margins were flat year-on-year largely reflecting the £20 million cost of IT implementation in the UK. Fuel for Growth cost reduction projects included the final closures of the Manchester and Chesterfield plants in the UK, and our Adams Cape Town facility in South Africa.

Outside Underlying profit from operations were restructuring costs of £21 million. These costs include the expenses associated with the relocation our Irish gum production facilities from the existing Pfizer site (£5 million), headcount reductions in our South African (£3 million) and French (£3 million) supply chain operations, the completion of the closure of the Manchester and Chesterfield plants in the UK (£2 million) and the integration of our Spanish and Portuguese businesses (£2 million).

Asia Pacific

Full year results (£m)	2004	Base business	Acquisitions/ Disposals	53rd week est	Exchange effects	**2005**
Revenue	1,050	81	1	(9)	34	**1,157**
		+8%	–	(1%)	+3%	**+10%**
Underlying profit from operations	134	19	–	(2)	6	**157**
		+14%	–	(2%)	+5%	**+17%**
Underlying operating margins	12.8%					**13.5%**

The results of Asia Pacific in 2005 were significantly impacted by:

> Strong revenue growth of 8%
> Developed market revenue growth of 7% and emerging markets ahead 11%
> Good margin growth reflecting the benefits of cost reduction projects and a focus on profitable growth

Our business across the Asia Pacific region had an excellent year with a particularly strong second half performance. We had good results in both our developed and emerging market businesses which grew at 7% and 11% respectively. Shares were increased in most major markets and all categories showed good growth in revenues.

Our confectionery operations in Australia and New Zealand grew revenues by 7% following a number of highly successful new product launches in Australia (Cadbury Caramel Whip, Boost and Brunch Bar) and share recovery in New Zealand. Our beverage business in Australia grew revenues by 7% despite discontinuing a number of its smaller less profitable brands.

In Japan, innovation in gum, particularly in the Clorets and Whiteen brands, led to a 140 basis point increase in share to 16.8% and a further improvement in margins.

In emerging markets, India grew strongly with revenue up 14% and chocolate share ahead by 120 basis points to 70.5%. Performance was also boosted by a resurgence in our business in Pakistan. In South East Asia, we continued to extend our share leadership in gum in Thailand (by 80 basis points to 58.9%), driven by the focus on sugar-free gum. The successful launch of Dentyne in Malaysia, using product sourced from our Thailand operations, saw our gum share increase by nearly

10 percentage points to 17.0%. In China, where we have been refocusing the business, revenue was 11% ahead as we relaunched our Cadbury Dairy Milk range of products.

Margins in the region were 80 basis points ahead due to the benefits of cost reduction projects and a focus on profitable growth. Key efficiency projects during the year included supply chain optimisation in Australia and New Zealand; manufacturing consolidation in China; and automation of Bournvita production in India.

Outside Underlying profit from operations were restructuring costs of £15 million. The main costs arose from headcount reductions in the Australian and New Zealand supply chain operations (£6 million), in the Indian supply chain operations (£5 million) and the reorganisation of the Chinese route-to-market (£2 million).

Central

Full year results (£m)	2004	Base business	Acquisitions/ Disposals	53rd week est	Exchange effects	**2005**
Revenue	10	(1)	–	–	–	**9**
		-10%	–	–	–	**(10%)**
Underlying profit from operations	(149)	(8)	–	1	–	**(156)**
		-5%	–	0%	–	**(5%)**
Underlying operating margins	n/a					**n/a**

Central revenue arises on the rendering of research and development services to third parties. Central costs have increased from £149 million to £156 million, principally reflecting incremental investments in innovation and capabilities, notably the Building Commercial Capabilities programme.

Capital structure and resources

Capital structure

During 2006, our market capitalisation remained largely unchanged at approximately £11.4 billion. The impact of a 4 pence decrease in the share price during the year to 546 pence at 31 December 2006 (550 pence at 1 January 2006) was offset by the issuance of 10.7 million shares to satisfy employee share awards. Net debt decreased during the year from £3,900 million at the end of 2005 to £2,909 million at the end of 2006, reflecting principally disposal proceeds from Europe Beverages.

We continue to proactively manage our capital structure to maximise shareowner value, whilst maintaining flexibility to take advantage of opportunities which arise, to grow our business. One element of our strategy is to make targeted, value-enhancing acquisitions. It is intended that these will, where possible, be funded from cash flow and increased borrowings. The availability of suitable acquisitions, at acceptable prices is, however, unpredictable. Accordingly, in order to maintain flexibility to manage the capital structure, the Company has sought, and been given, shareholders approval to buy back shares as and if appropriate. This authority has only been used once, in 1999, when 24 million shares (representing approximately 1% of the Company's equity) were purchased. Renewal of this authority will be sought at the Annual General Meeting in May 2007. Additionally, many of the obligations under our share plans described in Note 26 to the financial statements will be satisfied by existing shares purchased in the market by the Cadbury Schweppes Employee Trust (the "Employee Trust") rather than by newly issued shares. The Employee Trust purchased £50 million shares during 2006 (none in 2005) and held 19 million shares at the end of 2006, representing approximately 0.9% of the Company's issued share capital.

Borrowings

At the end of 2006, the total of gross short-term and long-term borrowings was £3,304 million compared with £4,279 million at the end of 2005. Cash and cash equivalents decreased to £269 million at the end of 2006 compared to £332 million at the end of 2005. Our borrowings, net of cash and cash equivalents and short-term investments, decreased to £2,909 million at the end of 2006, from £3,900 million at the end of 2005. The reduction has been driven by the net proceeds from disposals (principally Europe, South Africa and Syria beverages) offset by acquisitions (principally CSBG) and the Free Cash Flow for the period. At the end of 2006 £1,843 million of our gross debt was due after one year, however, 68% of the £1,461 million of debt due within one year was supported by undrawn committed facilities of £1 billion maturing after more than one year.

Gearing is calculated as follows:

	2006 £m	2005 £m	2004 £m
Net debt (see page 72)	2,909	3,900	3,870
Ordinary shareholders' funds	3,688	3,008	2,071
Equity minority interests	8	27	21
	3,696	3,035	2,092
Gearing ratio %	**79**	**129**	**185**

At the end of 2006, 75% of our net borrowings were either at fixed rates or converted to fixed rates through the use of interest rate swaps. It should be noted, however, that the year end is the low point in our seasonal borrowing cycle. Further information on our use of derivative financial instruments is given below. The reduced profit from operations (partially offset by a reduced interest charge) resulted in the Group's interest cover falling to 5.0 times from 5.7 times in 2005. On an Underlying basis interest cover increased from 5.9 times in 2005 to 6.2 times in 2006.

At 31 December 2006, we had undrawn committed borrowing facilities of £1 billion. This relates to a revolving credit facility, which matures in 2010. The interest rates payable on this borrowing facility are LIBOR plus 0.225% to 0.375% per annum. This facility is subject to customary covenants and events of

default, none of which are currently anticipated to affect our operations. In view of our committed facilities, cash and cash equivalents, short-term investments and cash flow from operations, we believe that there are sufficient funds available to meet our anticipated cash flow requirements for the foreseeable future.

Our long-term credit rating remained unchanged during 2006 at BBB.

For 2007, debt levels at constant currencies are expected to reduce following further operational cash inflows. The Group's debt is largely denominated in foreign currencies (see Note 27).

The Group's debt will depend on future movements in foreign exchange rates, principally the US Dollar and the Euro.

Details of the currency and interest rate profile of our borrowings are disclosed in Note 27 to the financial statements.

Contractual obligations
As at 31 December 2006:

Contractual obligations	Payments due by period				
	Total £m	<1 year £m	1-3 years £m	3-5 years £m	5 years + £m
Bank loans and overdrafts	297	167	60	69	1
Estimated Interest payments – borrowings	303	93	69	95	46
Estimated Interest payments – interest rate swaps	110	74	36	–	–
Finance leases	55	22	25	4	4
Other borrowings	2,952	1,272	1,095	77	508
Operating leases	380	66	107	83	124
Purchase obligations	300	273	27	–	–
Expected payments into pension plans	358	120	238	–	–
Other non-current liabilities	53	–	53	–	–
Total	**4,808**	**2,087**	**1,710**	**328**	**683**

As at 1 January 2006:

Contractual obligations	Payments due by period				
	Total £m	<1 year £m	1-3 years £m	3-5 years £m	5 years + £m
Bank loans and overdrafts	247	111	60	75	1
Estimated Interest payments – borrowings	249	99	93	57	–
Estimated Interest payments – interest rate swaps	276	143	120	13	–
Finance leases	63	20	42	–	1
Other borrowings	3,969	1,083	1,487	820	579
Operating leases	298	52	79	54	113
Purchase obligations	425	372	50	3	–
Expected payments into pension plans	342	157	185	–	–
Other non-current liabilities	224	–	202	21	1
Total	**6,093**	**2,037**	**2,318**	**1,043**	**695**

As at 2 January 2005:

Contractual obligations	Payments due by period				
	Total £m	<1 year £m	1-3 years £m	3-5 years £m	5 years + £m
Bank loans and overdrafts	279	101	178	–	–
Estimated Interest payments – borrowings	696	190	279	174	53
Estimated Interest payments – interest rate swaps	319	115	163	35	6
Finance leases	86	20	43	22	1
Other borrowings	3,851	509	1,302	1,123	917
Operating leases	335	59	81	61	134
Purchase obligations	273	247	25	1	–
Expected payments into pension plans	56	56	–	–	–
Other non-current liabilities	287	–	254	32	1
Total	**6,182**	**1,297**	**2,325**	**1,448**	**1,112**

Estimated future interest rate payments on borrowings are based on the applicable fixed and floating rates of interest as at the end of the year for all borrowings or interest rate swap liabilities. The interest obligations in the above table have been calculated assuming that all borrowings and swaps in existence at year end will be held to maturity and are on a constant currency basis.

Other non-current liabilities comprise trade and other payables, tax payable and long term provisions. Deferred tax liabilities have not been included within other non-current liabilities as these are not contractual obligations that will be settled by cash payment.

Expected payments into pension plans represents the best current estimate of the payments to be made into the scheme over the next three years. We do not believe that it is possible to estimate with any accuracy the contribution rates that will arise subsequent to this valuation.

The Company has guaranteed borrowings and other liabilities of certain subsidiary undertakings, the amounts outstanding and recognised on the Group Balance Sheet at 31 December 2006 being £3,520 million (2005: £4,064 million). In addition certain of the Company's subsidiaries have guaranteed borrowings of certain other subsidiaries. The amount covered by such arrangements as at 31 December 2006 was £2,658 million (2005: £3,607 million). Subsidiary undertakings have guarantees and indemnities outstanding amounting to £14 million (2005: £14 million).

Cash Flows

Free Cash Flow

We define Free Cash Flow as the amount of cash generated by the business after meeting all our obligations for interest, tax and dividends and after all capital investment excluding share sales or purchases by the Employee Trust (see page 157).

We generated Free Cash Flow (after dividend payments) of £200 million, a decrease of £204 million compared to 2005 when Free Cash Flow was £404 million (2004: £229 million).

At the exchange rate ruling in 2003 (the year when the £1.5 billion Free Cash Flow target was set), Free Cash Flow was £242 million, taking cumulative Free Cash Flow to £957 million.

The Free Cash Flow has been adversely impacted by £100 million of one off items, including CSBG, Cadbury Nigeria and the product recall, increases in the tax paid in the year, higher capital expenditure and dividend payments. We remain strongly cash generative, reflecting the high margin and cash generative nature of the Group's business.

Net cash flow from operating activities as shown in the cash flow statement on page 108 was £620 million (2005: £891 million; 2004: £745 million).

Cash flows on acquisitions and disposals

The net cash inflow in 2006 on acquisitions and disposals was £898 million. This comprised £1,295 million of proceeds from disposals offset by acquisitions of £375 million, principally the purchase of the remaining 55% of the share capital of CSBG for £201 million.

The cash outflow in 2005 on acquisitions was £71 million. This included the acquisition of Green & Black's and the final settlement in respect of the purchase of Adams China. In addition we purchased an incremental 5% share in our associate, Dr Pepper/Seven Up Bottling Group and acquired a further investment in our Nigerian associate, taking ownership closer to majority. Disposal proceeds of £41 million arose on the disposal of our investment in Gumlink, a Danish gum production business, and Holland House Cooking Wines, a US beverages brand.

The cash outflow in 2004 on acquisitions was £62 million. This included the acquisition of the balance of Orangina from Pernod Ricard and the completion of the purchase of the Adams Confectionery business in China from Pfizer Inc. Disposal proceeds of £11 million arose principally from the disposal of the South African food division.

Net cash flow before financing in 2006 was £1,142 million (2005: £583 million; 2004: £550 million).

Financing cash flows

The net cash outflow from financing during 2006 was £1,212 million. This included payment of dividends of £272 million to shareholders. In the year net repayments of borrowings were £949 million.

The net cash outflow from financing during 2005 was £592 million. This included payment of dividends of £261 million to shareholders. In the year borrowings of £193 million were repaid. This was offset by the £219 million of incremental borrowings required to repay the Group's US$400 million Quarterly Income Preferred Securities (QUIPs).

The net cash outflow from financing during 2004 was £539 million. The most significant element of this was the payment of dividends of £246 million and the net repayment of borrowings of £397 million.

Net cash

Cash and cash equivalents (net of overdrafts) increased during 2006 by £90 million to £186 million and decreased during 2005 by £8 million to £276 million. We invest our cash predominantly in instruments with investment grade credit ratings and the maximum exposure to any single counterparty is strictly limited.

Capital expenditure

Capital expenditure in 2006 was £384 million (2005: £298 million; 2004: £285 million), an increase of 29% over the level of expenditure in 2005. Key areas of capital expenditure increase related principally to CSBG (where, as we envisaged at the time of the acquisition, we need to increase capital investment to deliver the acquisition case) and investment in the production capacity and facilities of the Group, in particular gum capacity. All these projects were funded from internal resources.

For 2007 we expect capital spend to be between 5% and 5.5% of revenue. At 31 December 2006 we had capital commitments of £11 million. We expect to continue to fund this from internal resources.

Treasury risk management
We are exposed to market risks arising from our international business. Derivative financial instruments are utilised 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 as expressly stated, the policies set out below apply to prior years as well as being forward looking.

Substantially all financial instruments economically 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 and the term of such instruments is not greater than the term of such transactions or any anticipated refinancing or extension of them. Such anticipated transactions are all in the normal course of business and we are of the opinion that it is highly probable that they will occur. However, such transactions do not always meet the stringent conditions prescribed by IAS 39 to obtain hedge accounting.

(i) Liquidity risk
We seek to achieve a balance between certainty of funding, even at difficult times for the markets or ourselves, and a flexible, cost-effective borrowings structure. Consequently the policy seeks to ensure that all projected net borrowing needs are covered by committed facilities. The objective for debt maturities is to ensure that the amount of debt maturing in any one year is not beyond our 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.

(ii) Interest rate risk
We have an exposure to interest rate fluctuations on our borrowings and manage these by the use of interest rate swaps, cross currency interest rate swaps and forward rate agreements. 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.

The policy sets minimum and maximum levels of the total of net debt and preferred securities permitted to be at fixed or capped 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. These percentages are measured with reference to the current annual average level of debt.

75% of net debt was at fixed rates of interest at the year end (2005: 84%; 2004: 85%). Assuming no changes to the borrowings or hedges, we estimate that a rise of 1 percentage point in interest rates in all currencies in which we have borrowings would have affected 2006 profit before tax by 2% (2005: less than 1%; 2004: 2%).

(iii) Currency risk
We operate internationally giving rise to exposure from changes in foreign exchange rates, particularly the US dollar. We do not hedge translation exposure and earnings because any benefit obtained from such hedging can only be temporary.

We seek to relate the structure of borrowings to the trading cash flows that service them. Our policy is to maintain broadly similar fixed charge cover ratios for each currency bloc and to ensure that the ratio for any currency bloc does 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.

We also have transactional currency exposures arising from our international trade. Our 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. We make use of the forward foreign exchange markets to hedge these exposures.

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

(iv) Fair value analysis
The table below presents the changes in fair value of our financial instruments to hypothetical changes in market rates. The fair values are quoted market prices or, if not available, values estimated by discounting future cash flows to net present values.

The change in fair values for interest rate movements assumes an instantaneous 1% (100 basis points) decrease in interest rates of all currencies, from their levels at 31 December 2006, with all other variables remaining constant. The change in fair values for exchange rate movements assumes an instantaneous 10% weakening in sterling against all other currencies, from their levels at 31 December 2006, with all other variables remaining constant. Further information on fair values is set out in Note 28 to the financial statements.

The sensitivity analysis below shows forward-looking projections of market risk assuming certain adverse market conditions occur for all financial instruments except commodities. 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 we operate could cause losses to exceed the amounts projected.

As at 31 December 2006:

	Fair Value £m	Fair value changes arising from: 1% decrease in interest rates favourable/ (unfavourable) £m	10% weakening in £ against other currencies favourable/ (unfavourable) £m
Cash-cash equivalents	269	–	14
Short-term investments	126	–	11
Borrowings	(3,277)	55	304
Currency and interest rate swaps	10	(1)	1
Interest rate swaps	(4)	2	–
Currency exchange contracts (including embedded derivatives)	10	–	1

As at 1 January 2006:

	Fair Value £m	Fair value changes arising from: 1% decrease in interest rates favourable/ (unfavourable) £m	10% weakening in £ against other currencies favourable/ (unfavourable) £m
Cash-cash equivalents	332	–	19
Short-term investments	47	–	4
Borrowings	(4,277)	(96)	(364)
Currency and interest rate swaps	11	2	1
Interest rate swaps	(9)	(6)	(1)
Currency exchange contracts (including embedded derivatives)	(2)	–	4

As at 2 January 2005:

	Fair Value £m	Fair value changes arising from: 1% decrease in interest rates favourable/ (unfavourable) £m	10% weakening in £ against other currencies favourable/ (unfavourable) £m
Cash-cash equivalents	201	–	17
Short-term investments	145	–	8
Debt	(4,254)	(97)	(312)
Currency and interest rate swaps	(5)	4	20
Interest rate swaps	(25)	(28)	(2)
Currency exchange contracts	(10)	–	32
Quarterly Income Preferred Securities (see Note 30)	(219)	(2)	(22)

(v) Commodities

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

The Group held the following commodity futures contracts at 31 December 2006:

	2006 Fair value £m	2005 Fair value £m	2004 Fair value £m
Commodities (asset)	3	13	5
Commodities (liabilities)	(5)	(1)	(7)
Total £ equivalent notional	**(2)**	**12**	**(2)**

Commodity derivative contracts were held in Sterling and US dollars. The equivalent notional value of commodities held at the year-end increased from £135 million in 2005 to £160 million in 2006, the majority of which matures within one year.

The commodities derivative contracts held by the Group at the year-end expose 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, aluminium and other commodities traded on commodity exchanges. Applying a reasonable adverse movement in commodity prices to the Group's net commodity positions held at the year end would result in a decrease in fair value of £7.0 million (2005: £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.

(vi) Credit risk

We are exposed to credit related losses in the event of non-performance by counterparties to financial instruments, but we do not expect any counterparties to fail to meet their obligations given our policy of selecting only counterparties with high credit ratings. The credit exposure of interest rate and foreign exchange derivative contracts is represented by the fair value of contracts with a net positive fair value at the reporting date.

Review of accounting policies

Critical accounting estimates

The preparation of our financial statements in conformity with IFRS, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses during the period. Our significant accounting policies are presented in the notes to the financial statements.

Critical accounting policies are those that are most important to the portrayal of our financial condition, results of operations and cash flow, and require management to make difficult, subjective or complex judgements and estimates about matters that are inherently uncertain. Management bases its estimates on historical experience and other assumptions that it believes are reasonable. Our critical accounting policies are discussed below.

Actual results could differ from estimates used in employing the critical accounting policies and these could have a material impact on our results. We also have other policies that are considered key accounting policies, such as the policies for revenue recognition, cost capitalisation and cocoa accounting. However, these policies, which are discussed in the notes to the Group's financial statements, do not meet the definition of critical accounting estimates, because they do not generally require estimates to be made or judgements that are difficult or subjective.

(i) Brands and other acquisition intangibles

Brands and other intangibles that are acquired through acquisition are capitalised on the balance sheet. These brands and other intangibles are valued on acquisition using a discounted cash flow methodology and we make assumptions and estimates regarding future revenue growth, prices, marketing costs and economic factors in valuing a brand. These assumptions reflect management's best estimates but these estimates involve inherent uncertainties, which may not be controlled by management.

Upon acquisition we assess the useful economic life of the brands and intangibles. We do not amortise over 99% of our brands by value. In arriving at the conclusion that a brand has an indefinite life, management considers the fact that we are a brands business and expects to acquire, hold and support brands for an indefinite period. We support our brands through spending on consumer marketing and through significant investment in promotional support, which is deducted in arriving at revenue. Many of our brands were established over 50 years ago and continue to provide considerable economic benefits today. We also consider factors such as our ability to continue to protect the legal rights that arise from these brand names indefinitely or the absence of any regulatory, economic or competitive factors that could truncate the life of the brand name. No amortisation is charged on franchise rights acquired through acquisitions where the rights relate to brands owned by the Group and there brands have been assigned an indefinite life. This is because the Group believes that these rights will extend indefinitely. Where we do not consider these criteria to have been met, as was the case with certain brands acquired with Adams and CSBG, a definite life is assigned and the value is amortised over the life.

The cost of brands and other acquisition intangibles with a finite life are amortised using a methodology that matches management's estimate of how the benefit of the assets will be extinguished. Each year we re-evaluate the remaining useful life of the brands and other intangibles. If the estimate of the remaining useful life changes, the remaining carrying value is amortised prospectively over that revised remaining useful life.

A strategic decision to withdraw marketing support from a particular brand or the weakening in a brand's appeal through changes in customer preferences might result in management concluding that the brand's life had become finite. Were intangible assets to be assigned a definite life, a charge would be recorded that would reduce reported profit from operations and reduce the value of the assets reported in the balance sheet. We have consistently applied our estimate of indefinite brand lives since the date we first recognised brands as intangible assets in 1989 except for one brand where we amended our original estimate from an indefinite life to a definite life asset as the products had been re-branded.

(ii) Recoverability of long-lived assets

We have significant long-lived asset balances, including intangible assets, goodwill and tangible fixed assets. Where we consider the life of intangible assets and goodwill to be indefinite the balance must be assessed for recoverability on at least an annual basis. In other circumstances the balance must be assessed for recoverability if events occur that provide indications of impairment. An assessment of recoverability involves comparing the carrying value of the asset with its recoverable amount, typically its value in use. If the value in use of a long-lived asset were determined to be less than its carrying value,

as is the case for Cadbury Nigeria as at 31 December 2006, an impairment is charged to the income statement.

The key assumptions applied in arriving at a value in use for a long-lived asset are:
> The estimated future cash flows that will be derived from the asset; and
> The discount rate to be applied in arriving at a present value for these future cash flows.

(iii) Future cash flows

In estimating the future cash flows that will be derived from an asset, we make estimates regarding future revenue growth and profit margins for the relevant assets. These estimates are based on historical data, various internal estimates and a variety of external sources and are developed as part of the long-term planning process. Such estimates are subject to change as a result of changing economic and competitive conditions, including consumer trends. Higher estimates of the future cash flows will increase the fair values of assets. Conversely, lower estimates of cash flows will decrease the fair value of assets and increase the risk of impairment. We attempt to make the most appropriate estimates of future cash flows but actual cash flows may be greater or less than originally predicted.

(iv) Discount rates

The future cash flows are discounted at rates that we estimate to be the risk adjusted cost of capital for the particular asset. An increase in the discount rate will reduce the fair value of the long-lived assets, which could result in the fair value falling below the assets carrying value and an impairment being realised as part of the annual impairment review. On the other hand a decrease in the discount rate will increase the fair value of the long-lived assets and decrease the likelihood of impairment.

Future changes in interest rates, the premium the capital markets place on equity investments relative to risk-free investments and the specific assessment of the capital markets as to our risk relative to other companies can all affect our discount rate. Increases in interest rates and/or the risk premium applied by the capital markets would both result in increased discount rates. Conversely a reduction in interest rates and/or the risk premium applied by the capital markets would both result in decreased discount rates. These factors are largely outside of our control or ability to predict. For the past five years management has applied a Group discount rate of between 8.0% and 8.5%.

Where applicable, we review the reasonableness of all assumptions by reference to available market data including, where applicable, the publicly quoted share price of the Company. Changes in the assumptions used by management can have a significant impact on the estimated fair value of assets and hence on the need for, or the size of, an impairment charge.

(v) Trade spend and promotions

Accrued liabilities associated with marketing promotion programmes require difficult subjective judgements. We utilise numerous trade promotions and consumer coupon programmes. The costs of these programmes are recognised as a reduction to revenue with a corresponding accrued liability based on estimates made at the time of shipment or coupon release. The accrued liability for marketing promotions is determined through analysis of programmes, historical trends, expectations around customer and consumer participation, revenue and payment trends, and experiences of payment patterns associated with similar programmes that have previously been offered, often in consultation with external advisers. Management has significant experience in making such estimates. However each programme is different and it is possible that the initial estimate of the costs of such programmes and therefore the reduction in revenue recorded based on such estimates, may differ from the actual results. To the extent that the period end accrual proves different to the actual payments required in the subsequent period an adjustment is recorded in the subsequent period.

Up front payments are made to secure product installation in the fountain and food service channel of several of our beverage products. These payments are amortised (as a deduction to revenue) based upon a methodology (time or volumes sold) consistent with our contractual rights under these arrangements. The total unamortised up front payments as at the year end amounted to approximately £42 million. The weighted average period over which the up front payments are being amortised is approximately 14 years with the longest period being 18 years. Were we unable to enforce our rights under the relevant contracts we may be required to accelerate the recognition of such costs, which would reduce future revenue.

(vi) Pensions

Several subsidiaries around the world maintain defined benefit pension plans. The biggest plans are located in UK, Ireland, US, Canada, Mexico and Australia. The pension liabilities recorded are based on actuarial assumptions, including discount rates, expected long-term rate of return on plan assets, inflation and mortality rates. The assumptions are based on current market conditions, historical information and consultation with and input from our actuaries. Management reviews these assumptions annually. If they change, or if actual experience is different from the assumptions, the funding status of the plan will change and we may need to record adjustments to our previously recorded pension liabilities.

The cost of providing pension benefits is calculated using a projected unit credit method. The assumptions we apply are affected by short-term fluctuations in market factors. We use external actuarial advisers and management judgement to arrive at our assumptions.

In arriving at the present value of the pension liabilities, we must estimate the most appropriate discount rate to be applied. We are required to base our estimate on the interest yields earned on high quality, long-term corporate bonds. As the estimate is based on an external market variable the subjectivity of the assumption is more limited, however actual interest rates may vary outside of our control, so the funding status and charge will change over time. A decrease in the discount factor will increase the pension liabilities and may increase the charge recorded. An increase in the discount factor will decrease the pension liabilities and may decrease the charge recorded.

In calculating the present value of the pension liabilities we are also required to estimate mortality rates (or life expectancy), including an expectation of future changes in mortality rates. The Group uses actuarial advisers to select appropriate mortality rates that best reflect the Group's pension scheme population. If the mortality tables, or our expectation of future changes in the mortality tables, differ from actual experience then we will be required to revise our estimate of the pension liabilities and may be required to adjust the pension cost.

In calculating the pension cost, we are also required to estimate the expected return to be made on the assets held within the pension funds. We have 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. A decrease in the expected rate of return will increase the pension charge for the year. Conversely an increase in the expected rate of return will increase the pension charge for the year. If the actual returns fall below the long-term trend estimate the charge recorded in future periods will increase. If the actual returns exceed the long-term estimate the charge recorded in future periods will decrease.

An indication of the variability of the main assumptions applied by management over the past three years is set out below:

	2006	2005	2004
Discount rate	5.2%	5.0%	5.4%
Rate of asset returns	6.8%	7.2%	7.4%
Rate of salary increases	4.4%	4.2%	4.4%

A 25 basis point decrease in the estimate of the discount factor would have resulted in an approximate £3 million increase in the pension costs. A 25 basis point decrease in the estimate of the long-term rate of return on assets would have resulted in an approximate £6 million increase in the pension costs.

(vii) Income taxes

As part of the process of preparing our financial statements, we are required to estimate the income tax in each of the jurisdictions in which we operate. This process involves an estimation of the actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the balance sheet.

Significant management judgement is required in determining the provision for income tax and the recognition of deferred tax assets and liabilities. However, the actual tax liabilities could differ from the provision. In such an event, we would be required to make an adjustment in a future period, and this could materially impact our financial position and results of operations.

We operate in numerous countries but the tax regulations in the US and the UK have the most significant effect on income tax and deferred tax assets and liabilities, and the income tax expense. The tax regulations are highly complex and whilst we aim to ensure the estimates of tax assets and liabilities that are recorded are accurate, the process of agreeing tax liabilities with the tax authorities can take several years and there may be instances where the process of agreeing tax liabilities requires adjustments to be made to estimates previously recorded.

In the last three years the impact that revising the initial estimates has had on the recorded charge for current taxes and the corresponding increase in profits is set out below:

	2006 £m	2005 £m	2004 £m
Increase/(reduction) in current tax charge	4	(38)	(60)
Increase/(reduction) in deferred tax charge	(46)	(96)	8

We recognised deferred tax liabilities of £1,050 million at 31 December 2006 (2005: £954 million; 2004: £895 million), and have recognised deferred tax assets of £170 million (2005: £123 million; 2004: £17 million). There are further unrecognised deferred tax assets for losses of £187 million (2005: £165 million; 2004: £115 million). These losses relate to unrelieved tax losses in certain countries. We are required to assess the likelihood of the utilisation of these losses when determining the level of deferred tax assets for losses to be recognised. We do this based on the historical performance of the businesses, the expected expiry of the losses and the forecast performance of the business. These estimates continue to be assessed annually and may change in future years, for example if a business with history of generating tax losses begins to show evidence of creating and utilising taxable profits. In 2005, the annual assessment of the recoverability of the UK tax position resulted in the recognition of a deferred tax asset in the UK for the first time and a credit to profits of £104 million. £74 million of such unrecognised tax losses have no time limits and hence these tax losses have a greater probability of future recognition. Any change in the recognition of deferred tax assets for losses would generate an income tax benefit in the income statement in the year of recognition and an income tax cost in the year of utilisation.

Accounting policy changes

There have been no significant changes in our accounting policies during 2006.