

1. Nature of operations and accounting policies

(a) Nature of operations and segmental results

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

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

(b) Accounting convention

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

Within the cash flow statement, interest paid and interest received have been reclassified from investing activities to operating activities to achieve consistency with emerging practice and so present more relevant information. The prior period information has been re-presented on a comparable basis.

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

- IFRS 7 Financial Instruments: Disclosures; and the Related Amendment to IAS 1 on Capital Disclosures
- IFRS 8 Operating Segments
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements

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

(c) Preparation of financial statements

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

In 2005, the Group’s beverage businesses in Europe and Syria were classified as discontinued operations. In 2006, we completed the disposal of our South African beverage business. As this disposal was part of our strategic decision to exit beverages outside the Americas and Australia, it has also been classified as discontinued operations in 2006. This has required the re-presentation of the 2005 and 2004 financial statements on a comparable basis.

In prior years, the Group’s statutory accounts were made up to the Sunday nearest to 31 December. This resulted periodically in a financial year of 53 weeks. In 2006, the Group’s statutory accounts are drawn up on a calendar year basis with 12 monthly periods. The Income Statements cover the year from 2 January 2006 to 31 December 2006, the 52 weeks from 3 January 2005 to 1 January 2006 and the 53 weeks from 29 December 2003 to 2 January 2005. The balance sheets for 2006, 2005 and 2004 have been drawn up as at 31 December 2006, 1 January 2006 and 2 January 2005 respectively.

(d) Basis of consolidation

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

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

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

Results of subsidiary undertakings disposed of during the financial year are included in Group profit up to the effective date of disposal.

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

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

(e) Segmental analysis

Business reportable segments

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

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

Secondary reportable segments

The Group presents geographical information for the following areas: UK, US, Australia, Euro zone and Central and Southern America. The Euro zone segment includes all countries that currently operate the Euro and whose central bank interest rates are set by the European Central Bank. In this way all these countries have similar economic criteria, e.g. low inflation, equal interest rates and identical exchange rates with other countries. As the Euro zone countries are all members of the European Union, they also all have similar political conditions. The Central and Southern America all operate in areas of higher than average inflation and central bank interest rates. The economies of the region are less stable than those of the developed world and have a greater than average risk of significant currency fluctuations.

Basis of allocation of costs between segments

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

(f) Foreign currencies

Transaction differences arising from exchange rate variations of monetary items in trading transactions are included within profit from operations whilst those arising on financing transactions are recorded within the financing line. The functional currency of each of the Company's subsidiaries is the local currency in which each subsidiary is located. Monetary assets and liabilities denominated in a currency other than the functional currency of each of the Company's subsidiaries are translated into the functional currency at the rates ruling at the end of the financial year.

The consolidated financial statements are prepared in pounds sterling. The balance sheets of overseas subsidiaries are translated into pounds sterling at the rates of exchange ruling at the end of the financial year. The results of overseas subsidiary undertakings for the financial year are translated into sterling at an annual average rate, calculated using the exchange rates ruling at the end of each month. Differences on exchange arising from the retranslation of opening balance sheets of overseas subsidiary undertakings (or date of control in the case of acquisitions during the year) to the rate ruling at the end of the financial year are taken directly to the Group's translation reserve. In addition, the exchange differences arising from the retranslation of overseas profit and losses from average rate to closing rate are taken directly to the Group's translation reserve. Such translation differences are recognised as income or expense in the financial year in which the operations are disposed of.

(g) Revenue

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

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

(h) Research and development expenditure

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

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

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

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

(i) Advertising costs

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

(j) Share-based payments

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

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

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

(k) Restructuring costs

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

(l) Non-trading items

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

(m) Earnings per ordinary share

Basic earnings per ordinary share (EPS) is calculated by dividing the profit for the period attributable to equity holders of the parent by the weighted average number of shares in issue during the year. Diluted EPS is calculated by dividing the profit for the period attributable to equity holders of the parent by the weighted average number of shares in issue during the year increased by the effects of all dilutive potential ordinary shares (primarily share awards).

Underlying EPS represents basic EPS, adjusted in order to exclude amortisation and impairment of intangibles, restructuring costs, non-trading items, UK product recall, Nigeria adjustment, the release of disposal tax provisions, the IAS 39 adjustment and associated tax effect as described in Note 1(y).

(n) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment at least annually. Where applicable the asset is treated as a foreign currency item and retranslated at

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each year end. Where an impairment test is performed on goodwill, a discounted cash flow analysis is carried out based on the cash flows of the cash-generating unit (CGU) and comparing the carrying value of assets of the CGU with their recoverable amount. These cash flows are discounted at rates that management estimate to be the risk affected average cost of capital for the particular businesses. Any impairment is recognised immediately in the income statement.

Upon a step acquisition from associate to subsidiary, the acquiree's assets and liabilities are recognised at their fair value in the Group's balance sheet. Goodwill is calculated separately at each stage of the acquisition using the share of the fair value of net assets acquired. This gives rise to the creation of an IFRS 3 revaluation reserve as a separate component within equity which represents the fair value uplift attributable to the previously held share of assets and liabilities. A reserves transfer will be made to offset any incremental depreciation on the revalued assets.

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

(o) Acquisition intangibles

Brands

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

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

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

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

Other

The Group also recognises certain other separately identifiable intangible assets at fair value on acquisition. These include customer relationships, customer contracts and the exclusive rights to distribute branded products in certain geographical areas (franchise rights), including where such rights were granted to the acquired entity by the Group prior to its acquisition. No amortisation is charged on franchise rights acquired through acquisition where the rights relate to brands owned by the Group and these brands have been assigned an indefinite life. This is because the Group believes that these rights will extend indefinitely.

Impairment review

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

(p) Software intangibles

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

(q) Property, plant and equipment and leases

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

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

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

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

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

Where assets are financed by leasing agreements and substantially all the risks and rewards of ownership are substantially transferred to the Group ("finance leases") the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. For property leases, the land and buildings elements are treated separately to determine the appropriate lease classification. Depreciation on assets held under finance leases is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement as a financing charge. All other leases are "operating leases" and the relevant annual rentals are charged wholly to the income statement.

(r) Inventories

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

(s) Cash and cash equivalents

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

(t) Assets held for sale and discontinued operations

When the Group intends to dispose of, or classify as held for sale, a business component that represents a separate major line of business or geographical area of operations it classifies such operations as discontinued. The post tax profit or loss of the discontinued operations is shown as a single amount on the face of the income statement, separate from the other results of the Group.

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

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

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

(u) Taxation

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

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

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

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

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

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

(v) Pensions and other post-retirement benefits

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

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

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

(w) Financial instruments

Following the adoption of IAS 39 from 3 January 2005, the following are the Group's accounting policies for financial instruments. The 2004 comparatives have not been restated for the adoption of the above standards as permitted by IFRS 1 but are presented in accordance with the accounting policies detailed in Note 1(x).

Recognition

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

Derivative financial instruments

The Group manages exposures using hedging instruments that provide the appropriate economic outcome. Where it is permissible under IAS 39, the Group's policy will be to apply hedge accounting to hedging relationships where it is both practical to do so and its application reduces volatility.

Transactions that may be effective hedges in economic terms may not always qualify for hedge accounting under IAS 39. Due to the nature of many of the Group's hedging and derivative instruments it is unlikely that hedge accounting will be adopted for these hedging relationships. Consequently, movements in the fair value of derivative instruments will be immediately recognised in the income statement and may lead to increased volatility. The Group will separately disclose the impact of such volatility.

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

Transactional exposures

The Group is exposed to changes in prices of its raw materials, certain of which are subject to potential short and long-term fluctuations. In respect of such commodities the Group enters into derivative contracts 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. In principle these derivatives may qualify as "cash flow hedges" of future forecast transactions. To the extent that the hedge is deemed effective, the movement in the fair value of the derivative would be deferred in equity and released to the income statement as the cash flows relating to the Underlying transactions are incurred.

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

Treasury hedging

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

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

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

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

Trade receivables

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

Trade payables

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

Borrowings

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

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

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

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

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

Debt instruments

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

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(y) Management performance measures

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

To meet the needs of shareowners and other external users of the financial statements, the presentation of the income statement has been reformatted to show more clearly, through the use of columns, our Underlying business performance which provides more useful information on Underlying trends.

The principal adjustments made to reported profit and classified as non-Underlying in the income statement are summarised below:

- > Restructuring costs – the costs incurred by the Group in implementing the Fuel for Growth programme and integrating acquired businesses are classified as restructuring. These are programmes involving significant one-off incremental costs. The Group views restructuring as costs associated with investment in the future performance of the business and not part of the Underlying performance trends of the business;
- > Amortisation and impairment of intangibles – the Group amortises certain short-life acquisition intangibles. In addition, the impairment of the goodwill initially recognised in respect of Cadbury Nigeria has been recorded outside the Underlying results. This amortisation and impairment charge is not considered to be reflective of the Underlying trading of the Group;
- > Non-trading items – whilst the gain or loss on the disposal or impairment of subsidiaries, associates, investments and fixed assets form part of the Group's operating activities, the Group does not consider them to form part of its trading activities. The gains and losses on these discrete items can be significant and can have a material impact on the absolute amount of, and trend in, the Group profit from operations and operating margins. Any gains and losses on these on-trading items are therefore excluded on any such gains or losses in arriving at its Underlying profit from operations; and
- > IAS 39 adjustments – under IAS 39, the Group seeks to apply hedge accounting to hedge relationships (principally under commodity contracts, foreign exchange forward contracts and interest rate swaps) where it is permissible, practical to do so and reduces overall volatility. Due to the nature of its hedging arrangements, in a number of circumstances, the Group is unable to obtain hedge accounting. The Group continues, however, to enter into these arrangements as they provide certainty of price and delivery for the commodities purchased by the Group, the exchange rates applying to the foreign currency transactions entered into by the Group and the interest rate applying to the Group's debt. These arrangements result in fixed and determined cash flows. The Group believes that these arrangements remain effective, economic and commercial hedges. The effect of not applying hedge accounting under IAS 39 means that the reported profit from operations reflects the actual rate of exchange and commodity price ruling on the date of a transaction regardless of the cash flow paid by the Group at the predetermined rate of exchange and commodity price. In addition, the movement in the fair value 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 yields or commodity prices, this volatility will not be reflected in the cash flows of the Group, which will be determined by the fixed or hedged rate. The volatility introduced as a result of not applying hedge accounting under IAS 39 has been excluded from our Underlying performance measures to reflect the cash flows that occur under the Group's hedging arrangements.
- > Exceptional items – certain other items which do not reflect the Group's Underlying trading performance and due to their significance and one-off nature have been classified as 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 and comprise:
 - 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. Any impact on trading following the recall is included in Underlying results.
 - Nigeria – in 2006 the Group's share of Cadbury Nigeria's adjustments to reverse the historical over-statement of financial results and position 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.
 - Release of disposal tax provisions – in 2006, the Group 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 had resulted in the release of unutilised provisions totalling £51 million. 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 previous treatment, the release of the unutilised provisions has been excluded from the Underlying result.
 - Recognition of UK deferred tax asset – in 2005, the Group recognised a net deferred tax asset in the UK for the first time, which resulted in a £104 million credit to the 2005 current tax charge.
- > Taxation – the tax impact of the above items are 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 performance.

2. Revenue

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

	2006 £m	2005 £m	2004 £m
Continuing operations			
Sale of goods – confectionery	4,459	4,261	3,968
– beverages	2,960	2,162	2,034
Rendering of services ¹	8	9	10
	7,427	6,432	6,012
Investment revenue (Note 9)	48	42	48
Discontinued operations (Note 32)	70	725	726
	7,545	7,199	6,786

¹ Rendering of services relates to research and development work performed and invoiced to third parties by the Group's Science and Technology facilities.

3. Trading costs

(a) Trading costs analysis:

	2006 £m	2005 £m	2004 £m
Cost of sales	3,666	3,046	2,534
Distribution costs	594	426	362
Marketing and selling costs	693	680	663
Administrative expenses	1,404	1,233	1,506
Amortisation of definite life intangibles	23	6	7
Impairment of goodwill	15	–	–
UK product recall	30	–	–
	6,425	5,391	5,072

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

UK product recall represents the costs arising from the recall of seven of our Cadbury branded product lines in the UK and two in Ireland. These costs consist of customer returns, destroyed stock, remediation costs and increased media spend, offset by a £7 million insurance recovery.

We view restructuring costs as costs associated with investment in the future performance of our business and not part of the Underlying performance trends of the business. Hence these restructuring costs are separately disclosed in arriving at profit from operations. We consider restructuring costs, amortisation and impairment of intangibles to be administrative in nature.

(b) Gross profit analysis:

	2006 £m	2005 £m	2004 £m
Revenue	7,427	6,432	6,012
Cost of sales	(3,666)	(3,046)	(2,534)
Gross profit	3,761	3,386	3,478

4. Restructuring costs

During 2006, the continuing Group incurred £133 million (2005: £71 million; 2004: £139 million) of restructuring costs. £123 million of these costs was incurred as part of the four year Fuel for Growth programme.

	2006 £m	2005 £m	2004 £m
Integrating the Adams acquisition	–	16	55
Other Fuel for Growth projects in the base business	123	55	53
Total for Fuel for Growth	123	71	108
Integrating the CSBG acquisition	10	–	–
Write-down of IT asset	–	–	31
	133	71	139

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4. Restructuring costs continued

Of this total charge of £133 million (2005: £71 million; 2004: £139 million), £70 million (2005: £37 million; 2004: £41 million) was redundancy related and £21 million (2005: £18 million; 2004: £36 million) related to external consulting costs. The remaining costs consisted of asset write-offs, site closure costs, relocation costs and distribution termination payments. The analysis of these costs by region is shown below:

	2006 £m	2005 £m	2004 £m
Americas Beverages	21	6	23
Americas Confectionery	11	21	41
EMEA	65	21	21
Asia Pacific	15	15	18
Central	21	8	36
	133	71	139

5. Non-trading items

	2006 £m	2005 £m	2004 £m
(Loss)/profit on disposal of subsidiaries and brands	(4)	19	20
(Loss)/profit on disposal of investments	(3)	4	–
Profit/(loss) on disposal of land and buildings	22	(1)	(2)
Net gain on rebuild of buildings	25	3	–
	40	25	18

The loss on disposal of subsidiaries and brands in the year consists primarily of the profit of £17 million from the disposal of Grandma's Molasses and Slush Puppie, non-core brands in Americas Beverages, offset by a write-down to recoverable amount of £19 million relating to other non-core confectionery businesses which are held for sale at 31 December 2006. Cash consideration in respect of these disposals amounted to £29 million. The profit on disposal of land and buildings principally relates to the £17 million profit arising from the sale of a UK distribution centre. The net gain on rebuild of building relates to the £25 million insurance proceeds received to rebuild the Pontefract (UK) factory.

The profit on disposal of subsidiaries and brands in 2005 primarily related to £20 million profit on disposal of the Holland House brand in Americas Beverages offset by a loss of £1 million on the completion of the disposal of the Group's German confectionery business. Cash consideration in respect of these disposals amounted to £41 million.

The disposal in 2004 relates to the sale of the South African food division and the release of provisions related to disposals in earlier years for which the obligation period has lapsed. Cash consideration in respect of this disposal amounted to £11 million.

6. Profit from operations

Profit from operations for continuing operations is after charging:

	2006 £m	2005 £m	2004 £m
Research and product development	77	67	58
Depreciation of property, plant and equipment – owned assets	193	158	159
– under finance leases	12	12	9
Amortisation of definite life intangibles	23	6	7
Impairment of goodwill	15	–	–
Amortisation of software intangibles	33	19	21
Maintenance and repairs	105	82	77
Advertising and promotional marketing	693	680	663
Impairment of trade receivables	5	5	11

There were net foreign exchange gains of £3 million recognised in the income statement in 2006.

Analysis of profit from operations for discontinued operations is given in Note 32(c).

Auditors' remuneration

	2006 £m	2005 £m	2004 £m
Audit services			
– for the audit of the Company's annual accounts	0.7	0.7	0.6
– for the audit of the Company's subsidiaries	4.3	4.1	3.4
Total audit fees	5.0	4.8	4.0
Other services pursuant to legislation	2.6	1.3	0.7
Tax services	0.7	1.1	1.1
Corporate finance services	0.6	0.2	–
Other services	0.1	0.1	–
Total non-audit fees	4.0	2.7	1.8
Auditors' remuneration – continuing and discontinued operations	9.0	7.5	5.8
Less: auditors' remuneration for discontinued operations (Note 32(c))	–	(0.5)	(0.5)
	9.0	7.0	5.3

Other services pursuant to legislation primarily relates to assurance regarding controls as required by the Sarbanes-Oxley Act in the US, the half year review and shareowner/debt circular work.

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

Corporate finance services relates to work in connection with the disposal of the Europe Beverages business.

Amounts payable to Deloitte & Touche LLP (the auditor) and their associates by the Company and its UK subsidiary undertakings included above in respect of non-audit services were £3.2 million (2005: £2.1 million; 2004: £1.3 million).

The policy for approval of non-audit fees is set out on page 49. In addition to the above the Group engages other accounting firms to perform certain non-audit services. Total amounts paid to other accounting firms in 2006 were £9.0 million (2005: £7.6 million; 2004: £2.6 million) principally in relation to tax compliance and advisory services.

7. Employees and emoluments

	2006 £m	2005 £m	2004 £m
Emoluments of employees, including Directors, comprised:			
Wages and salaries	1,211	999	977
Social security costs	129	116	114
Post-retirement benefit costs (see Note 25)	90	79	84
Share-based payments (see Note 26)	41	37	38
Continuing operations	1,471	1,231	1,213
	2006	2005	2004
Average employee headcount:			
Americas Beverages	14,562	6,605	6,774
Americas Confectionery	14,568	14,175	14,002
EMEA	23,457	20,705	20,450
Asia Pacific	13,354	12,624	12,436
Central	761	769	662
Continuing operations	66,702	54,878	54,324

Emoluments of employees of discontinued operations totalled £14 million (2005: £106 million; 2004: £112 million), giving a total for the Group of £1,485 million (2005: £1,337 million; 2004: £1,325 million). The average employee headcount of discontinued operations totalled 309 (2005: 3,703; 2004: 4,118), giving a total for the Group of 67,011 (2005: 58,581; 2004: 58,442). Further details of discontinued operations are included in Note 32(b).

The average employee headcount disclosed above reflects the incremental heads for CSBG only for the period since acquisition. On a pro forma basis, assuming that CSBG had been acquired at the start of the year, the average headcount for Americas Beverages and continuing operations would have been 18,372 and 70,512 respectively.

Financial statements continued

8. Directors' remuneration

The information required by the Companies Act 1985 and the Listing Rules of the Financial Services Authority is contained on pages 63 to 67 in the Directors' remuneration report.

9. Investment revenue

	2006 £m	2005 £m	2004 £m
Interest income	23	31	39
Post retirement employee benefits	25	11	9
Investment revenue	48	42	48

10. Finance costs

	2006 £m	2005 £m	2004 £m
Bank and other loans not wholly repayable within five years	28	27	42
Bank and other loans wholly repayable within five years	102	139	185
Commercial paper	27	18	21
Finance leases	5	5	4
Bank overdrafts and other short-term borrowings	22	31	1
Finance costs on derivatives not in a designated hedge accounting relationship ¹	19	10	n/a
Finance costs	203	230	253

¹ Includes £6 million losses (2005: £nil; 2004: n/a) representing the difference in finance costs arising on derivatives between former UK GAAP hedge accounting and IAS 39 fair value accounting.

11. Taxation

	2006 £m	2005 £m	2004 £m
Analysis of change in period			
Current tax – continuing operations:			
– UK	(1)	(6)	3
– Overseas	(205)	(214)	(146)
– Adjustment in respect of prior year	(4)	38	60
	(210)	(182)	(83)
Deferred tax – continuing operations:			
– UK	(49)	(13)	(21)
– Overseas	(2)	(36)	(32)
– Adjustment in respect of prior year	46	(8)	(8)
– Recognition of UK deferred tax asset	–	104	–
	(5)	47	(61)
Taxation – continuing operation	(215)	(135)	(144)

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

In addition to the amounts recorded in the income statement, a deferred tax charge relating to post-retirement benefits and share awards totalling £18 million (2005: £17 million) was recognised directly in equity.

11. Taxation continued

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

	2006 %	2005 %	2004 %
Tax at the UK corporation rate	30.0	30.0	30.0
Tax effect of share of results of associates	–	(1.1)	(1.1)
Tax effect of expenses that are not deductible in determining taxable profit	3.5	2.3	1.9
Tax effect of income not taxable	(3.1)	(2.9)	–
Tax effect of prior period adjustments	(5.7)	(3.6)	(8.1)
Tax effect of initial recognition of UK deferred tax asset	–	(12.3)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	2.6	2.2	0.7
Other tax effects	1.8	1.6	(0.8)
Effective tax rate for the year for continuing operations	29.1	16.2	22.6

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

12. Dividends

	2006 £m	2005 £m	2004 £m
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the prior year of 9.00p (2005: 8.70p; 2004: 8.35p) per share	187	178	169
Interim dividend for the year of 4.10p (2005: 4.00p; 2004: 3.80p) per share	85	82	78
	272	260	247

At the year end date the final dividend had not been approved by the shareholders at the AGM and as such is not included as a liability. A final dividend for the year ended 31 December 2006 of 9.90 pence per share has been proposed, equivalent to a cash payment of approximately £206 million. The Company will not incur any tax charge upon payment of the proposed dividend.

13. Earnings per share

(i) Basic EPS

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

	Earnings 2006 £m	EPS 2006 pence	Earnings 2005 £m	EPS 2005 pence	Earnings 2004 £m	EPS 2004 pence
Reported – continuing and discontinued	1,169	56.4	765	37.3	525	25.9
Restructuring costs	133	6.4	86	4.2	166	8.2
Amortisation and impairment of intangibles	38	1.8	6	0.3	7	0.3
Non-trading items	(671)	(32.3)	(16)	(0.8)	(19)	(0.9)
UK product recall	30	1.4	–	–	–	–
Nigeria adjustments	23	1.1	–	–	–	–
IAS 39 adjustment	9	0.5	(23)	(1.1)	–	–
Effect of tax on above items	(26) ¹	(1.2)	(18) ¹	(0.9)	(57)	(2.8)
Release of disposal tax provisions	(51)	(2.5)	–	–	–	–
Recognition of UK deferred tax asset	–	–	(104)	(5.1)	–	–
Underlying – continuing and discontinued	654	31.6	696	33.9	622	30.7

¹ Includes £17 million (2005: £11 million) deferred tax credit arising on the intra-group transfer of retained brands.

Financial statements continued

13. Earnings per share continued

(ii) Diluted EPS

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

	2006 pence	2005 pence	2004 pence
Diluted Reported – continuing and discontinued	55.9	36.9	25.7
Diluted Underlying – continuing and discontinued	31.3	33.5	30.5

A reconciliation between the shares used in calculating basic and diluted EPS is as follows:

	2006 million	2005 million	2004 million
Average shares used in Basic EPS calculation	2,072	2,051	2,027
Dilutive share options outstanding	19	23	14
Shares used in diluted EPS calculation	2,091	2,074	2,041

Share options not included in the Diluted EPS calculation because they were non-dilutive in the period totalled 1 million in 2006 (2005: 1 million; 2004: 35 million), as the exercise price of these share options was above the average share price for the relevant year.

(iii) Continuing EPS

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

	Earnings 2006 £m	EPS 2006 pence	Earnings 2005 £m	EPS 2005 pence	Earnings 2004 £m	EPS 2004 pence
Reported – continuing operations	527	25.4	689	33.6	470	23.2
Restructuring costs	133	6.4	71	3.5	139	6.8
Amortisation and impairment of intangibles	38	1.8	6	0.3	7	0.3
Non-trading items	(40)	(1.9)	(25)	(1.2)	(18)	(0.8)
UK product recall	30	1.4	–	–	–	–
Nigeria adjustments	23	1.1	–	–	–	–
IAS 39 adjustment	9	0.5	(22)	(1.1)	n/a	n/a
Effect of tax on above items	(68) ¹	(3.2)	(4)	(0.2)	(48)	(2.4)
Recognition of UK deferred tax asset	–	–	(104)	(5.1)	–	–
Underlying – continuing operations	652	31.5	611	29.8	550	27.1

¹ Includes £17 million (2005: £nil) deferred tax credit arising on intra-group transfer of brands.

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

	2006 pence	2005 pence	2004 pence
Diluted Reported – continuing operations	25.2	33.2	23.0
Diluted Underlying – continuing operations	31.2	29.5	26.9

EPS information for discontinued operations is presented in Note 32(g).

14. Goodwill

	£m
Cost	
At 29 December 2003	2,384
Exchange differences	(89)
Recognised on acquisition of a subsidiary	51
Transfers arising on finalisation of purchase accounting	6
At 2 January 2005	2,352
Exchange differences	191
Recognised on acquisition of a subsidiary	6
Transferred to discontinued operation	(230)
Derecognised on disposal	(20)
At 1 January 2006	2,299
Exchange differences	(270)
Recognised on acquisition of a subsidiary	492
Transferred to asset held for sale	(9)
Derecognised on disposal	(10)
At 31 December 2006	2,502
Impairment	
At 1 January 2006 and at 2 January 2005	–
Impairment charge in the year	(15)
At 31 December 2006	(15)
Net book value at 31 December 2006	2,487

In 2006, goodwill recognised on acquisition of subsidiaries includes £386 million arising from the acquisition of the remaining 55% of the Group's former associate CSBG, £37 million relating to the acquisition of a further 30% share in the Group's Turkish subsidiary Kent Gida, £23 million relating to other smaller bottling group acquisitions in the US and £15 million relating to the goodwill arising on the further acquisition of shares in the Group's former associate Cadbury Nigeria (as well as the existing associate goodwill).

The impairment charge recognised in 2006 relates to Cadbury Nigeria. Cadbury Nigeria has been identified as a separate cash generating unit and is part of the EMEA reporting segment. Following acquisition it was discovered that the financial results and position of Cadbury Nigeria had been significantly overstated. A valuation of the business was undertaken by the Group once the full extent of the financial position was established. This indicated a value for Cadbury Nigeria as at 31 December 2006 which required the impairment of the entire goodwill balance of £15 million.

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

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

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

	2006 £m	2005 £m	2004 £m
North America Beverages	849	525	470
US and Canadian Confectionery	756	878	784
MECCA Confectionery	258	287	244
Western Europe Confectionery	187	227	255

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

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15. Other intangible assets

	Brand intangibles £m	Customer relationships and franchise intangibles £m	Total acquisition intangibles £m	Software £m
Cost				
At 29 December 2003	3,446	–	3,446	185
Exchange differences	(175)	–	(175)	(3)
Additions	–	–	–	22
Write-off	–	–	–	(31)
At 2 January 2005	3,271	–	3,271	173
Exchange differences	290	–	290	7
Recognised on acquisition of a subsidiary	25	–	25	–
Additions	–	–	–	19
Transfers to discontinued operations	(370)	–	(370)	(5)
At 1 January 2006	3,216	–	3,216	194
Exchange differences	(345)	(24)	(369)	(3)
Recognised on acquisition of a subsidiary	20	424	444	–
Additions	9	–	9	12
Transfers from assets in course of construction	–	–	–	27
Transfers to discontinued operations	–	–	–	–
At 31 December 2006	2,900	400	3,300	230
Amortisation				
At 29 December 2003	(3)	–	(3)	(8)
Charge for the year	(7)	–	(7)	(21)
At 2 January 2005	(10)	–	(10)	(29)
Charge for the year	(6)	–	(6)	(19)
Transfers to discontinued operations	–	–	–	3
At 1 January 2006	(16)	–	(16)	(45)
Exchange differences	–	–	–	3
Charge for the year	(6)	(17)	(23)	(33)
Transfers to discontinued operations	–	–	–	–
At 31 December 2006	(22)	(17)	(39)	(75)
Carrying amount				
At 2 January 2005	3,261	–	3,261	144
At 1 January 2006	3,200	–	3,200	149
At 31 December 2006	2,878	383	3,261	155

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

The franchise intangible and customer relationships additions in the year arose on the acquisition of CSBG. See Note 31 for further information about the acquisition. No amortisation is charged on franchise rights acquired through acquisitions where the rights relate to brands owned by the Group and these brands have been assigned an indefinite life. This is because the Group believes that these rights will extend indefinitely. Franchise rights to brands not owned by the Group are amortised consistent with the life of the contract. Customer relations are amortised over their expected useful life which is between 5 to 10 years. The amortisation period for software intangibles is no greater than 8 years.

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

While revenue growth of the Snapple brand since its acquisition in 2000 has been below the acquisition case, significant cost synergies have been generated through the integration with our other US beverage businesses. Management have stated their commitment to further invest behind the Snapple brand, principally through the launch of new products in the super-premium and mainstream segments of the US ready-to-drink tea market. Management expect these product launches to drive revenue growth of these brands in 2007. Management have concluded that no impairment of the brand has been required to date.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next four years and extrapolates cash flows for no more than five years, using a steady growth rate applicable to the relevant market (between 2% and 6%). This rate does not exceed the average long-term growth rate for the relevant markets.

Significant intangible assets details

Description	Carrying amount £m	Remaining amortisation period	
Acquisition intangibles			
Dr Pepper/7 UP	Carbonated soft drink	919	Indefinite life
Snapple	Non-carbonated soft drink	379	Indefinite life
Hawaiian Punch	Non-carbonated soft drink	105	Indefinite life
Halls	Candy	315	Indefinite life
Trident	Gum	226	Indefinite life
Dentyne	Gum	127	Indefinite life
Dr Pepper/7 UP franchise agreements	Carbonated soft drink distribution rights	286	Indefinite life

16. Property, plant and equipment

(a) Analysis of movements

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Cost				
At 29 December 2003	558	2,253	43	2,854
Exchange rate adjustments	(1)	(37)	(3)	(41)
Additions	9	120	141	270
Additions on acquisition of a subsidiary	2	–	–	2
Transfers on completion	6	87	(93)	–
Disposals	(12)	(198)	(1)	(211)
At 2 January 2005	562	2,225	87	2,874
Exchange rate adjustments	43	88	12	143
Additions	14	95	181	290
Transfers on completion	31	67	(98)	–
Transfers to assets held for sale	(7)	–	(3)	(10)
Transfers to discontinued operations	(63)	(113)	(4)	(180)
Disposals	(14)	(119)	(2)	(135)
At 1 January 2006	566	2,243	173	2,982
Exchange rate adjustments	(45)	(143)	(17)	(205)
Additions	21	131	220	372
Additions on acquisition of a subsidiary	114	142	20	276
Transfers on completion	25	127	(152)	–
Transfer on completion to software intangible assets	–	(27)	–	(27)
Transfers to assets held for sale	(1)	(38)	–	(39)
Disposals	(32)	(184)	(9)	(225)
At 31 December 2006	648	2,251	235	3,134

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16. Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Accumulated depreciation				
At 29 December 2003	(83)	(1,324)	–	(1,407)
Exchange rate adjustments	1	23	–	24
Depreciation for the year	(17)	(178)	–	(195)
Disposals	1	167	–	168
At 2 January 2005	(98)	(1,312)	–	(1,410)
Exchange rate adjustments	(15)	(52)	–	(67)
Depreciation for the year	(18)	(170)	–	(188)
Transfers to assets held for sale	4	–	–	4
Transfers to discontinued operations	5	22	–	27
Disposals	1	97	–	98
At 1 January 2006	(121)	(1,415)	–	(1,536)
Exchange rate adjustments	9	76	–	85
Depreciation for the year	(20)	(186)	–	(206)
Transfers to assets held for sale	–	25	–	25
Disposals	2	160	–	162
At 31 December 2006	(130)	(1,340)	–	(1,470)

Carrying amount

At 2 January 2005	464	913	87	1,464
At 1 January 2006	445	828	173	1,446
At 31 December 2006	518	911	235	1,664

The value of land not depreciated is £134 million (2005: £112 million; 2004: £112 million).

(b) Finance leases

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

	2006 £m	2005 £m	2004 £m
Cost	223	228	227
Less: accumulated depreciation	(179)	(172)	(155)
	44	56	72

(c) Analysis of land and buildings

	2006 £m	2005 £m	2004 £m
Analysis of net book value			
Freehold	470	394	431
Long leasehold	21	33	19
Short leasehold	27	18	14
	518	445	464

(d) Capital commitments

Commitments for capital expenditure contracted for but not provided in the Group financial statements at the end of the year for the continuing group were £11 million (2005: £14 million; 2004: £15 million).

17. Investment in associates

(a) Analysis of components

	2006 £m	2005 £m	2004 £m
Shares in associated undertakings			
– Listed	–	50	27
– Unlisted	22	185	164
Total net book value of associates	22	235	191
Loans to associated undertakings	–	137	133
	22	372	324

Following the acquisition of further shares in Cadbury Nigeria and its transfer to a subsidiary, the fair value of shares in listed associated undertakings is £nil (2005: £136 million; 2004: £107 million). Details of the principal associated undertakings are set out in Note 36.

(b) Analysis of movements in associated undertakings

	Listed £m	Unlisted £m	Loans to associates £m	Total £m
Cost/carrying value at 2 January 2005	16	96	133	245
Exchange rate adjustments	1	6	14	21
Transfer to discontinued operations	–	(11)	(10)	(21)
Additions	17	16	–	33
Cost/carrying value at 1 January 2006	34	107	137	278
Exchange rate adjustments	(1)	(6)	(9)	(16)
Additions	–	–	–	–
Transfer to investment in subsidiary	(33)	(82)	(128)	(243)
Cost/carrying value at 31 December 2006	–	19	–	19
Share of reserves at 2 January 2005	11	68	–	79
Exchange rate adjustments	2	15	–	17
Share of profit from operations	10	47	–	57
Share of interest	(2)	(14)	–	(16)
Share of taxation	(2)	(11)	–	(13)
Dividends received	(3)	(8)	–	(11)
Transfer to discontinued operations	–	(19)	–	(19)
Share of reserves at 1 January 2006	16	78	–	94
Exchange rate adjustments	(1)	(7)	–	(8)
Share of profit from operations	–	12	–	12
Share of interest	–	(5)	–	(5)
Share of taxation	–	–	–	–
Dividends received	–	(6)	–	(6)
Recognition of historical balance sheet overstatement ¹	(23)	–	–	(23)
Other recognised income and expense items	(2)	–	–	(2)
Transfer to investment in subsidiary	10	(69)	–	(59)
Share of reserves at 31 December 2006	–	3	–	3
Net book value at 2 January 2005	27	164	133	324
Net book value at 1 January 2006	50	185	137	372
Net book value at 31 December 2006	–	22	–	22

¹ Recognition of historical balance sheet overstatement relates to Cadbury Nigeria.

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

Financial statements continued

17. Investment in associates continued

(c) Additional associated undertaking disclosures

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

	2006 £m	2005 £m	2004 £m
Revenue ¹	5,449	6,184	5,949
(Loss)/profit for the period ¹	(5)	73	71
Non-current assets	100	348	322
Current assets	307	594	494
Current liabilities	(319)	(686)	(620)
Non-current liabilities	(6)	(531)	(484)

¹ Includes CSBG until 2 May 2006 and Cadbury Nigeria until 20 February 2006 from which point the entities ceased to be associates and were accounted for as subsidiaries.

18. Investments

	2006 £m	2005 £m	2004 £m
Available for sale investments	2	2	11

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

19. Inventories

	2006 £m	2005 £m	2004 £m
Raw materials and consumables	230	210	228
Work in progress	67	66	60
Finished goods and goods for resale	431	437	421
	728	713	709

The cost of inventories recognised as an expense for the period ended 31 December 2006 total £3,666 million (2005: £3,046 million; 2004: £2,534 million).

20. Trade and other receivables

	2006		2005		2004	
	Current £m	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m
Trade receivables	955	–	884	–	915	–
Less: provision for impairment of trade receivables	(32)	–	(22)	–	(30)	–
	923	–	862	–	885	–
Amounts owed by associated undertakings	3	–	39	–	34	–
Interest receivable	–	–	5	–	–	–
Other taxes recoverable	43	–	33	–	48	–
Other debtors	114	54	95	70	83	67
Prepayments and accrued income	103	–	146	–	100	–
	1,186	54	1,180	70	1,150	67

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

21. Assets held for sale

	2006 £m	2005 £m	2004 £m
At the beginning of the year	945	5	9
Additions	20	3	–
Transfer of discontinued operations	–	941	–
Disposals	(943)	(4)	(4)
At the end of the year	22	945	5

The additions to assets held for sale in the year relate primarily to Cadbury Italia, whose assets include £4 million non-current assets and £14 million current assets. Liabilities directly associated with Cadbury Italia are £9 million. The disposals in the year relate to the assets of Europe Beverages which were held for sale at 1 January 2006.

22. Trade and other payables

	2006		2005		2004	
	Current £m	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m
Trade payables	572	–	576	–	583	–
Amounts owed to associated undertakings	3	–	14	–	21	–
Payments on account	1	–	1	–	14	–
Interest accruals	30	–	48	–	53	–
Other taxes and social security costs	123	–	103	–	110	–
Accruals and deferred income	574	–	506	–	485	–
Government grants	–	–	–	–	–	1
Other payables	285	30	295	32	280	26
	1,588	30	1,543	32	1,546	27

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

23. Provisions

	Restructuring provisions £m	Acquisition provisions £m	Contractual, legal and other £m	Total £m
At 29 December 2003	93	21	17	131
Exchange rate adjustments	(2)	–	–	(2)
Recognised in the income statement	166	–	(10)	156
Reserves movement	–	–	(3)	(3)
Utilised in the year – cash	(162)	(3)	–	(165)
Utilised in the year – non-cash	(37)	–	–	(37)
Disposals	–	(3)	–	(3)
At 2 January 2005	58	15	4	77
Exchange rate adjustments	–	1	–	1
Recognised in the income statement	86	(4)	5	87
Utilised in the year – cash	(103)	(3)	1	(105)
Transfer to discontinued operations	(7)	–	–	(7)
At 1 January 2006	34	9	10	53
Exchange rate adjustments	(2)	(1)	–	(3)
Recognised in the income statement	133	–	(2)	131
Utilised in the year – cash	(83)	(3)	(6)	(92)
Utilised in the year – non-cash	(16)	–	–	(16)
At 31 December 2006	66	5	2	73
	2006 £m	2005 £m	2004 £m	
Amount due for settlement within 12 months	55	42	67	
Amount due for settlement after 12 months	18	11	10	
	73	53	77	

Financial statements continued

23. Provisions continued

The charge to the income statement for restructuring is explained in Note 4. The majority of the restructuring provision relates to redundancy costs expected to be incurred in the following year. Acquisition provisions relate to provisions set up at the time of prior year acquisitions.

Contractual, legal and other provisions relate to the Group's ongoing obligations relating to the disposal of subsidiaries, investments and brands. The timing of utilisation of these provisions is uncertain, but such amounts in 2007 are not expected to be significant.

24. Deferred taxation

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

	Accelerated depreciation £m	Acquisition intangibles £m	Retirement benefit obligations £m	Losses £m	Other £m	Total £m
At 29 December 2003	60	857	(40)	(8)	64	933
Charge to equity for the year	–	–	(1)	–	–	(1)
Charge to income statement – continuing operations	1	60	5	1	(6)	61
– discontinued operations	–	(14)	–	–	43	29
Acquisition of subsidiary	(2)	2	–	–	(4)	(4)
Transfer to current tax	–	–	–	2	(102)	(100)
Exchange differences	3	(42)	2	–	(3)	(40)
At 2 January 2005	62	863	(34)	(5)	(8)	878
Charge to equity for the year	–	–	20	–	(3)	17
Charge/(credit) to income statement – continuing operations	15	42	(50)	(4)	(50)	(47)
– discontinued operations	–	(11)	–	–	–	(11)
Acquisition of subsidiary	–	7	–	–	–	7
Transfer to discontinued operations	(2)	(67)	–	–	(24)	(93)
Exchange differences	7	79	(1)	(3)	(2)	80
At 1 January 2006	82	913	(65)	(12)	(87)	831
Charge to equity for the year	–	–	24	–	(6)	18
Charge/(credit) to income statement – continuing operations	(15)	69	15	(32)	(32)	5
Acquisition of subsidiary	37	116	–	–	(24)	129
Transfer	(10)	(4)	(16)	–	30	–
Transfer to discontinued operations	1	–	–	–	–	1
Exchange differences	(10)	(97)	3	–	–	(104)
At 31 December 2006	85	997	(39)	(44)	(119)	880

'Other' consists primarily of short-term timing differences (including the deferred tax on restructuring provisions) and share awards.

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

	2006 £m	2005 £m	2004 £m
Deferred tax assets	(170)	(123)	(17)
Deferred tax liabilities	1,050	954	895
	880	831	878

At the balance sheet date the Group has unused tax losses for which no deferred tax asset has been recognised of £187 million (2005: £165 million; 2004: £115 million). We do not believe that it is more likely than not that these amounts will be recoverable. Tax losses of £8 million expire in 2007, £100 million expire between 2007 and 2018 and £6 million expire after 2018. Other tax losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £5.2 billion (2005: £4.7 billion; 2004: £3.9 billion). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse.

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

25. Retirement benefit obligations

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

There are also a number of defined contribution schemes where benefits are limited to contributions.

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

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

	2006 £m	2005 £m	2004 £m
UK defined benefit schemes	37	42	40
Overseas defined benefit schemes – continuing operations	33	19	26
Overseas defined contribution schemes – continuing operations	20	18	18
Total continuing operations	90	79	84
Discontinued operations	–	5	1
Total	90	84	85

Of the charge for the year recorded within profit from operations in respect of the continuing operations' defined benefit schemes, £36 million (2005: £26 million; 2004: £22 million) has been included in cost of sales, £33 million (2005: £35 million; 2004: £44 million) has been included in Administrative expenses and in 2006, £1 million has also been included within Restructuring. Expected return on assets net of unwind of discount of £25 million (2005: £11 million; 2004: £9 million) has been recorded in Investment revenue. Actuarial gains and losses have been reported in the Statement of recognised income and expense.

Main financial assumptions as at year end:

	2006 % UK schemes	2006 % Overseas schemes	2005 % UK schemes	2005 % Overseas schemes	2004 % UK schemes	2004 % Overseas schemes
Rate of increase in salaries	4.5	4.0-4.25	4.2	4.0-4.25	4.5	4.0-4.25
Rate of increase in pensions in payment ¹	3.0	2.15	2.7	2.15	2.7	2.25
Rate of increase for deferred pensioners ¹	3.0	2.15	2.7	2.15	2.7	2.25
Discount rate for scheme liabilities	5.1	4.75-5.9	4.75	4.3-5.75	5.3	4.75-5.75
Inflation	3.0	2.25-2.5	2.7	2.25-2.5	2.7	2.25-2.5
Medical cost inflation	5.55	5.0-9.0	5.25	5.0-10.0	5.3	5.0-10.0

¹ Guaranteed pension increases only apply to the UK and Irish pension schemes.

The impact of a 1% change in medical cost inflation would be insignificant to the Group's financial position and results for the year.

In assessing the Group's post-retirement liabilities, the Group monitors mortality assumptions and uses up-to-date mortality tables. Allowance is made in all significant schemes for expected future increases in life expectancy. The mortality assumptions for the UK scheme were updated in 2005 following the statistical analysis performed during the full triennial funding valuation. The analysis demonstrated that the mortality assumption applied is consistent with recent experience. Expected future improvements in mortality have been allowed for by means of a downward adjustment to the discount rate. In the US, mortality assumptions appropriate to the population of the schemes have been adopted (standard RP2000 tables) and an allowance has also been made for expected future improvements in longevity. In Ireland, an analysis of the mortality experience of the schemes has resulted in the mortality assumption being updated (to standard tables PA92) to assume longer life expectancies. Again, allowance has been made for expected future improvements in longevity.

Life expectancy at the plan retirement age of 60, on the assumptions used in the UK valuations, are as follows:

	2006	2005
Current pensioner – male	24.1	23.9
– female	26.9	26.8
Future pensioner (currently age 45) – male	25.5	25.4
– female	28.0	27.9

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25. Retirement benefit obligations continued

The market value of the assets and liabilities of the defined benefit schemes and post-retirement medical benefit schemes as at 31 December 2006 are as follows:

	UK schemes expected rate of return %	Overseas schemes expected rate of return %	UK pension schemes market value £m	Overseas pension schemes market value £m	Post-retirement medical benefits market value £m	Total all schemes £m
Equities	8.15	7.5-8.5	1,002	350	2	1,298
Bonds	4.7	4.6-5.5	763	143	1	907
Property	7.5	5.6-6.9	183	32	–	215
Other	5.25	3.75-4.7	30	34	–	120
	6.7	6.9	1,978	559	3	2,540
Present value of benefit obligations			(1,988)	(720)	(36)	(2,744)
Recognised in the balance sheet			(10)	(161)	(33)	(204)

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

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

	UK schemes expected rate of return %	Overseas schemes expected rate of return %	UK pension schemes market value £m	Overseas pension schemes market value £m	Post-retirement medical benefits market value £m	Total all schemes £m
Equities	7.7	7.3-8.5	1,107	345	2	1,454
Bonds	4.4	4.8-5.5	449	124	1	574
Property	6.3	6.0-6.6	148	31	–	179
Other	4.2	3.0-4.1	58	32	–	90
	6.7	6.95	1,762	532	3	2,297
Present value of benefit obligations			(1,930)	(695)	(41)	(2,666)
Recognised in the balance sheet			(168)	(163)	(38)	(369)

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

	UK schemes expected rate of return %	Overseas schemes expected rate of return %	UK pension schemes market value £m	Overseas pension schemes market value £m	Post-retirement medical benefits market value £m	Total all schemes £m
Equities	8.0	6.9-8.5	962	284	2	1,248
Bonds	4.8	4.1-5.5	376	86	1	463
Property	6.7	5.7	110	27	–	137
Other	4.0	3.25	14	25	–	39
	7.1	6.5	1,462	422	3	1,887
Present value of scheme liabilities			(1,703)	(637)	(32)	(2,372)
Recognised in the balance sheet			(241)	(215)	(29)	(485)

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

	2006 £m	2005 £m	2004 £m
Opening defined benefit obligation	(2,666)	(2,372)	(2,150)
Current service cost	(70)	(77)	(67)
Past service cost	–	12	–
Interest cost	(129)	(120)	(116)
Actuarial losses	(11)	(184)	(143)
Contributions by employees	(10)	(11)	(11)
Obligation transferred on disposal of subsidiary	2	3	–
Transfer to discontinued operations	–	12	–
Liabilities assumed on acquisition	(28)	–	–
Exchange differences	54	(30)	8
Benefits paid	114	101	107
Closing defined benefit obligation	(2,744)	(2,666)	(2,372)

Of the £2,744 million of benefit obligations above, £84 million (2005: £73 million) are in respect of unfunded schemes. Of the remaining obligation of £2,660 million, assets of £2,540 million are held. Changes in the fair value of these scheme assets are as follows:

	2006 £m	2005 £m	2004 £m
Opening fair value of scheme assets	2,297	1,887	1,740
Expected return	154	131	125
Actuarial gains	82	260	71
Contributions by employees	10	11	11
Contributions by employer – normal	66	58	53
Contributions by employer – additional	67	31	–
Assets acquired on acquisition	17	–	–
Exchange differences	(39)	20	(6)
Benefits paid	(114)	(101)	(107)
Closing fair value of scheme assets	2,540	2,297	1,887

The actual return on scheme assets was £236 million (2005: £391 million; 2004: £196 million). The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. In 2006, the Group elected to make an additional £61 million (2005: £25 million) and £6 million (2005: £6 million) contribution to the UK and US pension schemes respectively. These payments are part of a long-term plan to reduce the Group's pension deficit.

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

The history of the schemes for the current and prior periods is as follows:

	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	(2,744)	(2,666)	(2,372)
Fair value of scheme assets	2,540	2,297	1,887
Deficit	(204)	(369)	(485)
Experience (losses)/gains on scheme liabilities	(49)	15	(50)
Change in assumptions	38	(199)	(93)
Experience adjustments on scheme assets	82	260	71

The total gross amount recognised in the statement of recognised income and expense in 2006 is a gain of £71 million; the cumulative total gross amount in respect of 2004–2006 is a gain of £75 million.

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

Financial statements continued

25. Retirement benefit obligations continued

The Group expects to contribute approximately £66 million to its defined benefit schemes in 2007. In addition management agreed to make an additional contribution of approximately £54 million in 2007 to further fund its defined benefit obligation.

Set out below are certain additional disclosures in respect of the Cadbury Schweppes Pension Fund (CSPF), which represents 68% of the Group's post-retirement liabilities.

The CSPF scheme assets are held in a separate Trustee Fund. The Trustee of the Fund is required to act in the best interest of the Fund's beneficiaries. The Trustee to the Fund is a corporate body whose board is made up of 10 members; 5 are appointed by the Company and 5 are appointed by the Pensions Consultative Committee (a body that represents members' interests). The employer contribution rate is generally reviewed every 3 years at the time of the triennial valuation.

The Group offers defined benefit retirement benefits to all of its current UK employees. The retirement benefits provided to employees joining after July 2001 are based on career average earnings, revalued for inflation with a ceiling of 5%. Benefits provided to members who joined the Group prior to this date are linked to final salary.

The principal disclosures regarding actuarial assumptions (including mortality) are set out above. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 75%
Rate of mortality	Increase by 1 year	Increase by 2.5%

The Group has agreed the following funding objectives with the Trustee:

- 1 To return the on-going funding level of the scheme to 100% of the projected past service liabilities within a period of 6 years measured in accordance with the assumptions set by the Trustee and its Actuary.
- 2 Once the funding level of the scheme is 100% of the prescribed bases then the agreement will be reviewed and a new funding plan agreed.
- 3 The funding plan will be reviewed at each triennial valuation and the funding position will aim to adjust for any surplus or deficit over reasonable periods.

The most recently completed triennial funding valuation for the Fund was performed by an independent actuary for the Trustee of the Fund and was carried out as at 6 April 2005. The levels of contributions are based on the current service costs and the expected future cash flows of the Fund.

Following this valuation the Group's ordinary contributions rate increased, with effect from 1 January 2006, from an overall rate of 12.9% of pensionable salaries to 15.5%. In 2006, the Group contributed a further £49 million to the Cadbury Schweppes Pension Fund as a contribution towards the current funding deficit. In addition, the Group has committed to a further contribution each year to 2008, when this commitment will be reviewed as part of the next formal valuation which is due to be completed as at 6 April 2008. The Group considers that the contribution rates and additional contributions agreed with the Trustee at the last valuation date are sufficient to eliminate the funding deficit over the agreed period and that regular contributions, which are based on service costs, will not vary significantly.

At 31 December 2006, the Fund's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The fair value of the scheme assets as a percentage of total scheme assets and target allocations are set out below:

(as a percentage of total scheme assets)	Planned 2007	2006	2005
Equity securities	55%	52%	64%
Debt	35%	37%	24%
Property	10%	10%	9%
Other	0%	1%	3%

In conjunction with the Trustee, the Group has agreed to enter into a funding plan, which includes discussion on the investment of its assets. These discussions include the risk return policy of the Group and set the framework of matching assets to liabilities based on this risk reward profile. The majority of equities relate to international entities. The aim is to hold a globally diversified portfolio of equities, with a target of 60% of equities being held in international equities. To maintain a wide range of diversification and to improve return opportunities, up to approximately 15% of assets are allocated to alternative investments such as private equity and property.

26. Share-based payments

The Group recognised total expenses of £42 million (2005: £39 million; 2004: £39 million) related to equity-settled share-based payment transactions during the year including £1 million in respect of Europe Beverages (2005: £2 million; 2004: £1 million).

The continuing operations expense of £41 million has been recognised in the primary segments as follows: Americas Beverages £8 million, Americas Confectionery £8 million, EMEA £8 million, Asia Pacific £3 million and £14 million in Central.

The Group has a number of share option plans that are available to Board members and certain senior executives: the Long Term Incentive Plan (LTIP), the Bonus Share Retention Plan (BSRP) and the Discretionary Share Option Plans (DSOP), full details of which are included in the Directors' remuneration report on pages 58 to 61. The Group also has a share option scheme for all employees of the Group. Options are normally forfeited if the employee leaves the Group before the options vest. The Group has an International Share Award Plan (ISAP) which is used to reward exceptional performance amongst employees.

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

Share award fair values

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

	Schemes granted in 2006			
	BSRP	LTIP	ISAP	Sharesave
Expected volatility	n/a	18%	n/a	22%
Expected life	3 yrs	3 yrs	1-3 yrs	Vesting+5 months
Risk free rate	4.5%		4.2%-4.9%	4.6%-4.8%
Expected dividend yield	2.5%	2.5%	2.3%-2.5%	2.3%
Fair value per award (% of share price at date of grant)	185.2% ¹	92.8% UEPS	93.0%-99.3%	23.8%-33.5%
		46% TSR		
Possibility of ceasing employment before vesting	–	–	–	12%-36%
Expectations of meeting performance criteria	40%	100%	n/a	n/a

No grants were made under the DSOP in 2006.

	Schemes granted in 2005				
	BSRP	LTIP	DSOP	ISAP	Sharesave
Expected volatility	n/a	22%	22%	n/a	22%
Expected life	3 yrs	3 yrs	²	1-3 yrs	Vesting+5 months
Risk free rate	4.5%	n/a	4.8%	4.3%	4.3%-4.4%
Expected dividend yield	2.5%	3.0%	3.0%	2.3%-2.5%	2.2%-2.3%
Fair value per award (% of share price at date of grant)	185.3% ¹	91.4% UEPS	23.0%	93.0%-97.8%	23.3%-35.3%
		49.6% TSR			
Possibility of ceasing employment before vesting	–	–	14%	–	12%-32%
Expectations of meeting performance criteria	40%	50%	85%	n/a	n/a

	Schemes granted in 2004				
	BSRP	LTIP	DSOP	ISAP	Sharesave
Expected volatility	n/a	22%	22%	n/a	22%
Expected life	3 yrs	3 yrs	²	1-3 yrs	Vesting+5 months
Risk free rate	4.5%	n/a	4.7%-5.0%	4.4%-5.0%	4.6%-6.0%
Expected dividend yield	2.7%	3.0%	3.0%	2.7%-3.2%	2.7%-2.8%
Fair value per option (% of share price at date of grant)	183.8% ¹	91.4% UEPS	23.3%	91.6%-99.2%	21.4%-32.2%
		49.5% TSR			
Possibility of ceasing employment before vesting	–	–	11%	–	7%-33%
Expectation of meeting performance criteria	40%	50%	100%	n/a	n/a

¹ Fair value of BSRP includes 100% of the matching shares available.

² The fair value calculation of a discretionary share option uses an expected life to the point of expected exercise. This is determined through analysis of historical evidenced exercise patterns of option holders.

Financial statements continued

26. Share-based payments continued

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

The BSRP is available to a group of approximately 170 senior executives including the executive Directors. The maximum number of shares awarded in 2006 is 3,307,069 (2005: 3,141,237; 2004: 1,417,545). 1,852,788 shares vested in 2006 (2005: 1,435,712; 2004: 1,162,488). Also during the period, matching awards were made over 1,676,061 shares (2005: 815,279; 2004: 724,571). The fair value of the shares under the plan is based on the market price of the Company's ordinary shares on the date of the award. Where the awards do not attract dividends during the vesting period, the market price is reduced by the present value of the dividends expected to be paid during the expected life of the awards. Awards made under this scheme are classified as equity settled. The expense recognised in respect of these awards was £9 million (2005: £13 million; 2004: £12 million).

Around 85 senior executives (including the executive Directors) are granted a conditional award of shares under the LTIP. The number of shares awarded in respect of 2006 is 3,092,130 (2005: 2,605,000; 2004: 3,341,000). 1,947,819 shares vested in 2006 (2005: Nil; 2004: Nil) and lapsed shares totalled 2,303,388 (2005: 1,943,000; 2004: 124,000). Awards made under this scheme are classified as equity settled. The expense recognised in respect of these awards was £6 million (2005: £4 million; 2004: £5 million).

Following the decision to cease granting discretionary options other than in exceptional circumstances, the ISAP is now used to grant conditional awards to employees, who previously received discretionary options. Around 2,000 employees were granted a total of 3,613,478 such awards in 2006 (2005: 501,840). Awards under this plan are classified as equity settled. There were 55,018 lapses in the year.

DSOP and share save plans, details of which are set out in (b), (c) and (d) below, resulted in a charge of £26 million in 2006 (2005: £21 million; 2004: £22 million).

2006: Details of the share option plans are as follows:

	Balance outstanding at the beginning of the year	Granted	Exercised	Cancelled	Balance outstanding at the end of the year	Exercise prices for options outstanding at the end of the year in the range (in £ unless otherwise stated)	Weighted average exercise price of options outstanding at the end of the year (in £ unless otherwise stated)	Weighted average contractual life in months of options outstanding at the end of the year	Exercisable at year end	Weighted average exercise price of options currently exercisable at year end (in £ unless otherwise stated)
a	12,574,101	1,880,162	2,351,912	601,870	11,500,481	3.14-4.47	3.75	35	–	–
b	21,067,034	–	5,868,052	775,564	14,423,418	2.60-3.79	3.48	72	14,423,418	3.48
c	40,648,373	–	10,130,427	1,315,739	29,202,207	3.94-4.82	4.53	55	28,639,073	4.62
d	10,114,750	–	8,250	270,000	9,836,500	4.39-5.69	4.79	95	–	–
e	26,785,750	–	13,750	1,601,500	25,170,500	4.39-5.71	4.78	95	–	–
f	891,421	–	250,269	28,285	612,867	2.73-3.79	3.27	21	27,129	2.74
g	193,065	201,215	80	16,373	377,827	4.23-4.57	4.41	36	–	–
h	435,115	–	85,133	3,317	346,665	2.74-3.79	3.12	31	3,889	2.74
i	70,560	47,118	979	3,644	113,055	4.23-4.57	4.37	47	–	–
j	1,623,636	–	1,524,188	5,100	94,348	\$6.61	\$6.61	–	–	–
k	1,360,472	–	5,236	57,776	1,297,460	\$8.43	\$8.43	10	–	–
l	–	1,591,504	–	–	–	\$9.135	\$9.14	24	–	–
m	1,433,302	–	586,160	400,689	446,453	3.02-3.86	3.46	17	–	–
n	229,314	129,401	4,071	81,888	272,756	\$4.37-4.59	4.42	31	–	–
o	212,078	–	66,092	52,198	93,788	\$5.27-\$6.22	6.23	6	–	–
p	97,600	–	–	–	97,600	\$7.93	\$7.93	24	–	–
q	114,593	96,502	75,591	42,750	92,754	4.34	4.34	7	–	–
r	822,296	–	1,084	14,840	806,372	\$8.42	\$8.43	10	–	–
s	–	1,784,960	–	–	1,784,960	\$9.13	9.13	24	–	–

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

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

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

	Balance outstanding at the beginning of the year	Granted	Exercised	Cancelled	Balance outstanding at the end of the year	Exercise prices for options outstanding at the end of the year in the range (in £ unless otherwise stated)	Weighted average exercise price of options outstanding at the end of the year (in £ unless otherwise stated)	Weighted average contractual life in months of options outstanding at the end of the year	Exercisable at year end	Weighted average exercise price of options currently exercisable at year end (in £ unless otherwise stated)
a	1,074,362	–	549,841	11,399	513,122	2.35	2.35	1	–	–
	14,691,587	2,288,832	2,587,939	1,007,341	13,385,139	3.14-3.76	3.39	33	499,920	3.74
b	5,433,928	–	2,572,646	121,782	2,739,500	2.43-2.75	2.54	17	2,739,500	2.54
	53,993,317	606,750	6,140,803	3,117,026	45,342,238	2.97-4.25	3.73	84	18,893,727	3.95
	45,225,096	–	1,673,037	4,713,892	38,838,167	4.44-4.83	4.75	81	21,669,747	4.69
c	–	5,834,250	–	11,750	5,822,500	4.40-4.52	4.40	116	–	–
d	–	15,561,000	–	48,750	15,512,250	4.40-4.60	4.40	116	–	–
e	545,603	–	12,193	21,291	512,119	2.35-2.74	2.72	34	20,885	2.35
	891,296	251,395	340,907	92,425	709,359	3.29-3.78	3.50	29	88,175	3.63
f	450,111	146,775	88,189	42,103	466,594	2.74-3.89	3.15	44	–	–
g	3,324,472	1,712,548	1,082,460	358,372	3,596,188	\$4.67-\$6.61	\$5.56	10	–	–
h	1,860,060	606,071	389,287	167,020	1,909,824	3.02-3.86	3.39	31	351,954	3.43
	262,320	103,116	–	136,486	228,940	\$5.27-\$6.23	\$5.68	20	–	–
i	196,220	123,355	153,483	44,487	121,605	3.57	3.57	6	–	–

26. Share-based payments continued

- (a) A Savings-Related Share Option Scheme for employees was approved by shareholders in May 1982. These options are normally exercisable within a period not later than 6 months after the repayment date of the relevant, "Save-as-you-Earn" contracts which are for a term of 3, 5 or 7 years.
- (b) A Share Option Plan for directors, senior executives and senior managers was approved by shareholders in May 1994. Options shown here were granted prior to 15 July 2004 and are normally exercisable within a period of 7 years commencing 3 years from the date of grant, subject to the satisfaction of certain performance criteria.
- (c) A Share Option Plan for eligible executives (previously called the Cadbury Schweppes Share Option Plan 1994, as amended at the 2004 AGM). Options shown here were granted after 15 July 2004 and are normally exercisable within a period of 7 years commencing 3 years from the date of grant, of grant, subject to the satisfaction of certain performance criteria.
- (d) The Cadbury Schweppes (New Issue) Share Option Plan 2004 was established by the Directors, under the authority given by shareholders in May 2004. Eligible executives are granted options to subscribe for new shares only. Subject to the satisfaction of certain performance criteria, options are normally exercisable within a period of 7 years commencing 3 years from the date of grant.
- (e) A Save-as-you-Earn option plan for eligible employees of Cadbury Ireland Limited was approved by shareholders in May 1987. These options are exercisable within a period not later than 6 months after the repayment of the relevant "Save-as-you-Earn" contracts, which are for a term of 3, 5 or 7 years.
- (f) A Save-as-you-Earn option plan linked to additional voluntary contributions for pension purposes for eligible employees of Cadbury Ireland Limited was introduced by the trustees of Cadbury Ireland Pension Plan in 1987. These options are exercisable within a period not later than 6 months after the repayment of the relevant "Save-as-you-Earn" contracts, which are for a term of 3, 5 or 7 years.
- (g) The US Employees Share Option Plan 2005 (previously called the United States and Canada Employee Stock Purchase Plan 1994). The options are exercisable on a date or dates established by the Committee, provided, however, where the exercise price is set by reference to the market value on the grant date that no exercise date may be set later than 27 months from the grant date.
- (h) The International Savings-Related Share Option Scheme was established by the Directors, under the authority given by shareholders in May 1994. Employees in Spain, France, Portugal, Mexico, Germany and the Netherlands were granted options during 2005 and 2006. Options are exercisable within a period not later than 6 months after the repayment of the relevant "Save-as-you-Earn" contracts, which are for a term of 3 or 5 years.
- (i) The Asia Pacific Employee Share Acquisition Plan was established by the Directors under the authority given by shareholders in May 1994. Options are exercisable no later than 12 months after the date of invitation.
- (j) The Americas Employees Share Option Plan 2005 was established by the Directors under the authority given by shareholders in May 2004 to encourage and facilitate the ownership of shares by eligible employees of selected subsidiaries located in North, Central and South America. The options are exercisable on a date or dates established by the Committee, provided, however, where the exercise price is set by reference to the market value on the grant date no exercise date may be set later than 27 months from the grant date.

For all schemes and plans described above in notes (a) and (e) to (j), there are no performance requirements for the exercising of options, except that a participant's employment with the Group must not have been terminated for cause prior to the date of exercise of the relevant option. For those schemes listed under notes (b) to (d) there are performance requirements for the exercising of options. However, no such option grants were made in 2006 as discretionary share options were removed as part of our remuneration programme. From 2006 onwards, no such grants will be made other than in exceptional circumstances.

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

	2006		
	Options granted	Options exercised	Options lapsed
Savings-Related Share Option Scheme 1982	£4.47	£3.40	£3.82
Share Option Plan 1994	–	£4.13	£4.01
Share Option Plan 2004	–	£4.79	£4.77
(New Issue) Share Option Plan 2004	–	£4.79	£4.79
Irish Savings-Related Share Option Scheme	£4.57	£2.99	£3.66
Irish AVC Savings-Related Share Option Scheme	£4.57	£3.21	£3.88
US Employees Share Option Plan 2005	\$9.14	\$6.62	\$8.28
International Savings-Related Share Option Scheme 1998	£4.47	£2.32	£2.59
International Savings-Related Share Option Scheme 1998	–	–	\$5.72
Asia Pacific Employee Share Acquisition Plan 2002	£4.34	£4.34	£4.34
Americas Employees Share Option Plan 2005	\$9.14	\$8.43	\$8.43

The weighted average share price during the year was £5.46.

	2005		
	Options granted	Options exercised	Options lapsed
Savings-Related Share Option Scheme 1982	£4.37	£3.13	£3.42
Share Option Plan 1994	–	£4.12	£4.07
Share Option Plan 2004	£5.26	–	£4.48
(New Issue) Share Option Plan 2004	£5.27	£4.79	£4.59
Irish Savings-Related Share Option Scheme	£4.23	£3.32	£3.47
Irish AVC Savings-Related Share Option Scheme	£4.23	£3.38	£3.54
US Employees Share Option Plan 2005	\$8.43	\$4.69	\$4.70
International Savings-Related Share Option Scheme 1998	£4.59	£3.34	£2.49
International Savings-Related Share Option Scheme 1998	\$7.93	–	\$5.59
Asia Pacific Employee Share Acquisition Plan 2002	£4.34	£3.57	£3.62
Americas Employees Share Option Plan 2005	\$8.43	–	\$8.43

The weighted average share price during the year was £5.38.

	2004		
	Options granted	Options exercised	Options lapsed
Savings-Related Share Option Scheme 1982	£3.52	£3.14	£3.41
Share Option Plan 1994	£4.25	£3.61	£4.29
Market Purchased Share Option Plan 2004	£4.40	–	£4.40
New Issue Share Option Plan 2004	£4.40	–	£4.40
Irish Savings-Savings Related Share Option Scheme	£3.39	£3.57	£3.27
Irish AVC Savings-Savings Related Share Option Scheme	£3.39	£3.47	£3.40
United States and Canada Employee Stock Purchase Plan 1994	\$6.61	\$5.88	\$5.52
International Savings-Related Share Option Scheme 1998	£3.58	£3.27	£3.44
International Savings-Related Share Option Scheme 1998	\$6.23	–	\$5.30
Asia Pacific Employee Share Acquisition Plan 2002	£3.57	£2.82	£2.92

The weighted average share price during the year was £4.46.

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

Financial statements continued

26. Share-based payments continued

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

In the last 3 years, 6 appropriations under the Irish Share Plan, a profit sharing plan, totalling 81,343 ordinary shares have been made to eligible employees. The prices at which the shares will vest, between 7 June 2006 and 13 December 2008, range from £4.47 to £5.43.

27. Borrowings

Group un-drawn debt facilities

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

	2006		
	Expiring within 1 year £m	Expiring in 1 to 2 years £m	Expiring beyond 2 years but less than 5 years £m
Un-drawn committed syndicated facility	–	–	1,000
Un-drawn committed subsidiary facilities	71	–	–
	71	–	1,000
	2005		
	Expiring within 1 year £m	Expiring in 1 to 2 years £m	Expiring beyond 2 years but less than 5 years £m
Un-drawn committed syndicated facility	–	–	1,000
Un-drawn committed subsidiary facilities	110	–	–
	110	–	1,000
	2004		
	Expiring within 1 year £m	Expiring in 1 to 2 years £m	Expiring beyond 2 years but less than 5 years £m
Un-drawn committed syndicated facility	–	–	1,042
Un-drawn committed subsidiary facilities	31	–	–
	31	–	1,042

The un-drawn committed syndicated facility for £1,000 million expires in 2010. The margins payable on drawings under this facility are between 22.5 basis points and 37.5 basis points per annum and commitment fees on un-drawn amounts are between 6.75 basis points and 11.4 basis points per annum. The Group is subject to a restrictive covenant under the facility agreement requiring that the ratio of EBITDA to adjusted net interest (both as defined in the agreement), calculated as at the end of each year will be no less than 3.5:1 for the period of approximately 12 months ending on the last day of the year. The Group is currently in compliance with this covenant. For the 2006 financial year-end the ratio was 7.0 times (2005: 6.8 times; 2004: 6.2 times). These facilities are subject to customary events of default, none of which are currently anticipated to occur. The commercial paper back-up facilities are annual facilities subject to review at various dates during each year. In addition, there are other uncommitted facilities available to the Group.

Classes of drawn debt

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

	2006			2005			2004		
	Amounts due within a year £m	Amounts due after a year £m	Total £m	Amounts due within a year £m	Amounts due after a year £m	Total £m	Amounts due within a year £m	Amounts due after a year £m	Total £m
Floating rate debt									
EUR Floating rate notes due 2007	404	–	404	–	410	410	–	424	424
Commercial paper	603	–	603	392	–	392	240	–	240
Bank loans in foreign currencies ¹	83	130	213	53	136	189	59	178	237
Bank overdrafts ¹	84	–	84	55	–	55	42	–	42
Other notes maturing 2006-2009	56	–	56	57	63	120	–	68	68
Obligations under finance leases	22	33	55	20	43	63	20	66	86
Other loans	2	–	2	3	–	3	17	1	18
	1,254	163	1,417	580	652	1,232	378	737	1,115
Fixed rate debt									
4.5% CAD notes due 2005	–	–	–	–	–	–	44	–	44
7.75% Notes due 2005	–	–	–	–	–	–	156	–	156
5.75% USD notes due 2006	–	–	–	291	–	291	–	260	260
5.75% GBP notes due 2006	–	–	–	250	–	250	–	249	249
5% USD notes due 2007	153	–	153	–	175	175	–	156	156
4.9% CAD notes due 2008	–	142	142	–	162	162	–	141	141
3.875% USD notes due 2008	–	509	509	–	581	581	–	518	518
4.25% EUR notes due 2009	–	403	403	–	410	410	–	424	424
4.875% GBP notes due 2010	–	77	77	–	400	400	–	399	399
5.125% USD notes due 2013	–	508	508	–	581	581	–	517	517
Other notes maturing 2006-2010	54	41	95	93	104	197	52	185	237
	207	1,680	1,887	634	2,413	3,047	252	2,849	3,101
Total gross borrowings	1,461	1,843	3,304	1,214	3,065	4,279	630	3,586	4,216
Less:									
Obligations under finance leases	(22)	(33)	(55)	(20)	(43)	(63)	(20)	(66)	(86)
Borrowings and overdrafts	1,439	1,810	3,249	1,194	3,022	4,216	610	3,520	4,130

¹ At year-end, the book value of assets pledged as collateral for secured loans was £1 million (2005: £1 million; 2004: £1 million). The security for the borrowings shown above as secured is by way of charges on the properties of Group companies concerned.

Financial statements continued

27. Borrowings continued

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

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

The interest rates on the Notes in the above table do not take into account the various interest rate swaps and cross currency swaps entered into by the Group. Details of the Group's effective currency and interest rate profiles are contained on page 149.

The Group's borrowing limit at 31 December 2006 calculated in accordance with the Articles of Association was £13,258 million.

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

Interest on unsecured bank loans is at rates which vary in accordance with local inter-bank rates. The weighted average interest rate payable at year end on short-term borrowings excluding overdrafts was 5.1% (2005: 5.1%; 2004: 5.3%). The amount of non-interest bearing loans is negligible.

Gross borrowings maturity profile

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

	2006			
	Bank loans and overdrafts £m	Finance leases £m	Other borrowings £m	Total £m
Within one year or on demand	167	22	1,272	1,461
Between one and two years	59	23	683	765
Between two and three years	1	2	412	415
Between three and four years	67	2	77	146
Between four and five years	2	2	–	4
After five years	1	4	508	513
	297	55	2,952	3,304
Less: amounts due for repayment within 12 months (shown under current liabilities)	(167)	(22)	(1,272)	(1,461)
Amount due for repayment after 12 months	130	33	1,680	1,843

	2005			
	Bank loans and overdrafts £m	Finance leases £m	Other borrowings £m	Total £m
Within one year or on demand	111	20	1,083	1,214
Between one and two years	–	21	706	727
Between two and three years	59	21	781	861
Between three and four years	1	–	420	421
Between four and five years	75	–	400	475
After five years	1	1	579	581
	247	63	3,969	4,279
Less: amounts due for repayment within 12 months (shown under current liabilities)	(111)	(20)	(1,083)	(1,214)
Amount due for repayment after 12 months	136	43	2,886	3,065

2004

	Bank loans and overdrafts £m	Finance leases £m	Other borrowings £m	Total £m
Within one year or on demand	101	20	509	630
Between one and two years	152	21	640	813
Between two and three years	26	22	662	710
Between three and four years	–	21	689	710
Between four and five years	–	1	434	435
After five years	–	1	917	918
	279	86	3,851	4,216
Less: amounts due for repayment within 12 months (shown under current liabilities)	(101)	(20)	(509)	(630)
Amount due for repayment after 12 months	178	66	3,342	3,586

Currency profile of borrowings

At 31 December 2006, 75% (2005: 84%) of the Group's net borrowings were at fixed interest rates or converted to fixed rates using interest rate swaps and cross currency swaps. These fixed rate borrowings expose the Group to fair value interest rate risk. The remaining 25% (2005: 16%) of the Group's net borrowings, in the form of overdrafts, commercial paper, bank loans and loan notes, were arranged at floating rates, therefore exposing the Group to cash flow interest rate risk. The Group has a policy of matching cross currency and interest rate swaps to the maturity of the Underlying debt.

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

Fixed rate analysis

	2006						
	Fixed rate borrowings £m	Weighted average effective interest rate %	Effect of cross currency swaps £m	Effect of interest rate swaps £m	Total fixed rate borrowings £m	Weighted average interest rate (including swaps) %	Weighted average time for which rate is fixed Years
Sterling	77	4.9	–	(100)	(23)	4.9	4.0
Euro	424	4.2	(20)	135	539	4.1	2.4
US dollar bloc	1,312	4.6	–	357	1,669	4.8	3.0
Australia/New Zealand dollars	4	6.3	(4)	–	–	–	–
Others	70	2.5	(61)	–	9	1.0	2.1
	1,887	4.5	(85)	392	2,194	4.6	2.8

Floating rate analysis

	2006				
	Floating rate borrowings £m	Effect of cross currency swaps £m	Effect of interest rate swaps £m	Effect of currency swaps £m	Floating rate borrowings (including swaps) £m
Sterling	74	–	100	172	346
Euro	415	–	(135)	(314)	(34)
US dollar bloc	802	84	(357)	336	865
Australia/New Zealand dollars	3	–	–	(55)	(52)
Others	123	(9)	–	(139)	(25)
	1,417	75	(392)	–	1,100

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27. Borrowings continued

Fixed rate analysis

2005

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

Floating rate analysis

2005

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

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

28. Financial instruments

Treasury risk management policies

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

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

(a) Liquidity risk

The Group seeks to achieve a balance between certainty of funding, even at difficult times for the markets or the Group, and a flexible, cost-effective borrowings structure. 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 the Group's means to repay and refinance. To this end the policy provides that at least 75% of year end net debt should have a maturity of one year or more and at least 50%, 3 years or more. Committed but undrawn facilities are taken into account for this test.

(b) Interest rate risk

The Group has an exposure to interest rate fluctuations on its borrowings and manages these by the use of interest rate swaps, cross currency interest rate swaps, forward rate agreements and interest rate caps. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall.

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 year end (2005: 84%; 2004: 85%).

(c) Currency risk

The Group operates internationally giving rise to exposure from changes in foreign exchange rates, particularly the US dollar.

The Group does not hedge translation exposure and earnings because any benefit obtained from such hedging can only be temporary.

The Group seeks to relate the structure of borrowings to the trading cash flows that service them. The Group's 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.

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

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

(d) Commodity risk

In respect of commodities the Group enters into 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 the banks, the exchanges and their clearing houses.

(e) Credit risk

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

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

At the year-end, the Group had US\$59 million notional value worth of currency swaps with a financial institution with a credit quality lower than that permitted under Group Policy. \$3.6 million cash collateral has been obtained from the counterparty as security to mitigate against the higher credit risk. The book value of the cash collateral is equal to its fair value. There were no significant concentrations of credit exposure at year-end.

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

The Group is exposed to £3,520 million in credit exposure on financial guarantees issued in respect of Group corporate borrowings and certain subsidiary undertakings which represents the Group's maximum credit exposure arising from guarantees. See Note 34 on Commitments and Contingencies for further details.

Financial statements continued

28. Financial instruments continued

(f) Foreign currency derivatives

Terms and conditions of financial instruments

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on transactions denominated in foreign currencies. At 31 December 2006, the Group held contracts to exchange sterling for the following foreign currencies; the table represents the contracted sterling cashflows at the year end.

Foreign exchange trades against £

	2006 Current						2006 Non-current	
	\$ £m	€ £m	AUD £m	DKK £m	NZD £m	Other £m	€ £m	Other £m
Purchase	74	438	43	63	93	136	–	–
Sale	(419)	(64)	(111)	(12)	–	(44)	–	–
Total £ equivalent notional	(345)	374	(68)	51	93	92	–	–

At 31 December 2006 the Group also held contracts to exchange US dollars against the following foreign currencies at future dates. The table below shows contracted US dollar cash flows against the presented foreign currencies translated into sterling at the year end spot rate.

Foreign exchange trades against \$

	2006 Current						2006 Non-current	
	CAD £m	AUD £m	€ £m	DKK £m	NZD £m	Other £m	€ £m	Other £m
Purchase	47	10	50	–	2	10	–	–
Sale	(78)	(24)	(14)	(1)	(3)	(20)	–	(4)
Total £ equivalent notional	(31)	(14)	36	(1)	(1)	(10)	–	(4)

At 31 December 2006, the Group had approximately £55 million forward transactions relating to currencies other than US dollars or sterling all of which mature in 2007. The majority of forward foreign exchange contracts mature within 12 months. The maximum maturity of forward foreign exchange transactions is March 2008.

Foreign exchange trades against £

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

Foreign exchange trades against \$

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

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

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

Foreign exchange trades against £

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

Foreign exchange trades against \$

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

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

(g) Interest rate derivatives

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

Currency/instrument	2006							
	Notional principal £m	Weighted average interest rate %	Maturing in less than one year £m	Maturing in the second year £m	Maturing in the third year £m	Maturing in the fourth year £m	Maturing in the fifth year £m	After five years £m
£								
Receive fixed	100	4.88	–	–	–	100	–	–
Euro								
Receive fixed	20	3.86	20	–	–	–	–	–
Pay fixed	135	3.72	–	68	67	–	–	–
\$								
Receive fixed	919	2.96	510	409	–	–	–	–
Pay fixed	1,276	3.62	715	561	–	–	–	–
Other								
Receive fixed	66	2.89	34	32	–	–	–	–

Currency/instrument	2005							
	Notional principal £m	Weighted average interest rate %	Maturing in less than one year £m	Maturing in the second year £m	Maturing in the third year £m	Maturing in the fourth year £m	Maturing in the fifth year £m	After five years £m
£								
Receive fixed	250	5.40	150	–	–	–	100	–
Euro								
Receive fixed	21	3.86	–	21	–	–	–	–
Pay fixed	137	3.72	–	–	137	–	–	–
\$								
Receive fixed	1,046	2.96	–	581	465	–	–	–
Pay fixed	1,454	3.62	–	814	640	–	–	–
Other								
Receive fixed	155	2.46	58	37	60	–	–	–
Pay fixed	122	5.31	122	–	–	–	–	–
Forward start pay fixed	64	5.85	–	64	–	–	–	–

Financial statements continued

28. Financial instruments continued

On swaps where fixed rates of interest are payable, the Group receives interest at floating rates of 3 months or 6 month LIBOR rates (or local equivalent). On swaps where fixed rates of interest are received, the Group pays interest at floating rates set at 3 month or 6 month LIBOR plus an average margin of 0.50%.

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

(h) Commodities

In respect of commodities the Group enters into 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 derivative contracts at 31 December 2006:

	2006 Fair value £m	2005 Fair value £m	2004 Fair value £m
Commodities (assets)	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 the commodities 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 £70 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 2 year period. Stocks, priced forward contracts and estimated anticipated purchases are not included in the calculations of the sensitivity analysis. This method of analysis is used to assess and mitigate risk and should not be considered a projection of likely future events and losses. Actual results and market conditions in the future may be materially different from the projection in this note and changes in the instruments held and in the commodities markets in which the Group operates could cause losses to exceed the amounts projected.

(i) Embedded derivatives

The Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in IAS 39. As at 31 December 2006, the fair value of embedded derivatives was an asset of £0.5 million (2005: £1.9 million). This relates to foreign exchange forward contracts embedded within certain procurement contracts with maturities of between one and two years. Amounts recorded in the income statement are included within those disclosed in Note 10 to the financial statements.

(j) Fair values and sensitivity analysis

Fair values of non-derivative financial assets and liabilities:

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

	2006		2005	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Floating rate debt				
EUR floating rate notes due 2007	404	405	410	413
Commercial paper	603	603	392	392
Bank Loans in foreign currencies	213	213	189	184
Bank overdrafts	84	84	55	55
Other notes maturing 2006-2009	56	56	120	122
Obligations under finance leases	55	52	63	64
Other loans	2	2	3	3
	1,417	1,415	1,232	1,233
Fixed rate debt				
5.75% USD notes due 2006	–	–	291	292
5.75% GBP notes due 2006	–	–	250	252
5% USD notes due 2007	153	153	175	174
4.9% CAD notes due 2008	142	143	162	164
3.875% USD notes due 2008	509	498	581	565
4.25% EUR notes due 2009	403	403	410	424
4.875% GBP notes due 2010	77	75	400	399
5.125% USD notes due 2013	508	496	581	577
Other notes maturing 2006-2009	95	94	197	197
	1,887	1,862	3,047	3,044
Total gross borrowings	3,304	3,277	4,279	4,277

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

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

As at 31 December 2006

	Fair value change arising from		
	Fair value £m	1% decrease in interest rates favourable/ (unfavourable) £m	10% weakening in £ against other currencies favourable/ (unfavourable) £m
Derivatives			
Currency and interest rate swaps (assets)	10	(1)	1
Currency and interest rate swaps (liabilities)	–	–	–
Interest rate swaps (assets)	15	10	2
Interest rate swaps (liabilities)	(19)	(8)	(2)
Currency exchange contracts (assets)	26	–	3
Currency exchange contracts (liabilities)	(16)	–	(2)
Commodity contracts (assets)	3	–	–
Commodity contracts (liabilities)	(5)	–	(1)

Financial statements continued

28. Financial instruments continued

As at 1 January 2006

	Fair value change arising from		
	Fair value £m	1% decrease in interest rates favourable/ (unfavourable) £m	10% weakening in £ against other currencies favourable/ (unfavourable) £m
Derivatives			
Currency and interest rate swaps (assets)	12	2	1
Currency and interest rate swaps (liabilities)	(1)	–	–
Interest rate swaps (assets)	26	14	2
Interest rate swaps (liabilities)	(35)	(20)	(3)
Currency exchange contracts (assets)	22	–	4
Currency exchange contracts (liabilities)	(24)	–	–
Commodity contracts (assets)	13	–	1
Commodity contracts (liabilities)	(1)	–	–

Some commodities are cash settled on a daily basis. Fair value gains and losses relating to these commodity instruments are reflected in cash and cash equivalents on the balance sheet. At the year end there was £1.1 million worth of gains relating to cash settled commodities (2005: £6.3million).

29. Capital and reserves

(a) Share capital of Cadbury Schweppes plc

	2006 £m	2005 £m	2004 £m
Authorised share capital:			
Ordinary shares (3,200 million of 12.5p each)	400	400	400
Allotted, called up and fully paid share capital:			
Ordinary shares (2,095 million of 12.5p each)	262	260	259

The Company has one class of ordinary shares which carry no right to fixed income.

During 2006, 10,682,192 ordinary shares of 12.5p were allotted and issued upon the exercise of share options (see Note 26). The nominal value of ordinary shares issued during the year was £1.3 million. There were no other changes in the issued ordinary share capital of the Company during 2006.

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

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

(b) Movements on capital and reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedging and translation reserve £m	Acquisition revaluation reserve £m	Retained earnings £m	Total £m
At 29 December 2003	258	1,071	90	–	–	487	1,906
Currency translation differences (net of tax)	–	–	–	(122)	–	–	(122)
Movement in own shares	–	–	–	–	–	57	57
Actuarial losses on defined benefit pension schemes (net of tax)	–	–	–	–	–	(74)	(74)
Shares issued	1	27	–	–	–	(3)	25
Profit for the period attributable to equity holders of the parent	–	–	–	–	–	525	525
Dividends paid	–	–	–	–	–	(246)	(246)
At 2 January 2005	259	1,098	90	(122)	–	746	2,071
IAS 39 transition balance sheet adjustments	–	–	–	(8)	–	(18)	(26)
Currency translation differences (net of tax)	–	–	–	257	–	–	257
Movement in own shares	–	–	–	–	–	103	103
Actuarial gains on defined benefit pension schemes (net of tax)	–	–	–	–	–	56	56
IAS 39 transfers to income or expense	–	–	–	6	–	–	6
Shares issued	1	37	–	–	–	(1)	37
Profit for the period attributable to equity holders of the parent	–	–	–	–	–	765	765
Dividends paid	–	–	–	–	–	(261)	(261)
At 1 January 2006	260	1,135	90	133	–	1,390	3,008
Currency translation differences (net of tax)	–	–	–	(413)	(3)	–	(416)
Revaluation reserve arising on acquisition of former associate	–	–	–	–	56	–	56
Disposal reversal of exchange in reserves	–	–	–	10	–	–	10
Share of associate reserve movements	–	–	–	–	–	(2)	(2)
Movement in own shares	–	–	–	–	–	48	48
Actuarial gains on defined benefit pension schemes (net of tax)	–	–	–	–	–	50	50
IAS 39 transfers to income or expense	–	–	–	(1)	–	–	(1)
Shares issued	2	36	–	–	–	–	38
Profit for the period attributable to equity holders of the parent	–	–	–	–	–	1,169	1,169
Dividends paid	–	–	–	–	–	(272)	(272)
At 31 December 2006	262	1,171	90	(271)	53	2,383	3,688

At 31 December 2006, the Company held 19 million (2005: 22 million; 2004: 39 million) of own shares purchased by the Cadbury Schweppes Employee Trust for use in employee share plans. During 2006, an additional £50 million of the Company's shares were purchased by the Trust.

During 2006, the Company received £46 million (2005: £38 million; 2004: £28 million) on the issue of shares in respect of the exercise of options awarded under various share option plans.

The capital redemption reserve arose on the redemption of preference shares in 1997 and is considered non-distributable.

The hedging and translation reserve comprises £(268) million (2005: £135 million; 2004: £(122) million) relating to all foreign differences arising from the translation of the financial statements of foreign operations and £(3) million (2005: £(2) million; 2004: £nil) relating to hedging items.

The acquisition revaluation reserve arose on the step acquisition of former associates to subsidiaries in 2006. It represents the increase in the fair value of assets acquired attributable to the previously owned share.

Financial statements continued

30. Minority interests

	Equity £m	Non- equity £m	Total £m
At 29 December 2003	18	225	243
Exchange rate adjustments	(1)	(16)	(17)
Share of profit after taxation	4	18	22
Dividends declared	–	(19)	(19)
At 2 January 2005	21	208	229
Exchange rate adjustments	3	11	14
Share of profit after taxation	5	6	11
Redemption of QUIPS	–	(219)	(219)
Dividends declared	(1)	(6)	(7)
Purchase of shares from minorities	(1)	–	(1)
At 1 January 2006	27	–	27
Exchange rate adjustments	(1)	–	(1)
Share of profit after taxation	(4)	–	(4)
Dividends declared	(4)	–	(4)
Share of other movements in equity	(1)	–	(1)
Purchase of shares from minorities	(9)	–	(9)
At 31 December 2006	8	–	8

As at 31 December 2006, Cadbury Nigeria is in a net liabilities position. The minority interest has no contractual obligation to meet these liabilities, consequently no minority interest asset has been recognised.

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

31. Acquisitions

2006 acquisitions

CSBG acquisition

On 2 May 2006, the Group acquired the 55% of Dr Pepper/Seven Up Bottling Group (now Cadbury Schweppes Bottling Group or CSBG) which was not previously owned for £201 million, before assumed net debt of £343 million. The Group acquired CSBG to strengthen the route-to-market of its US beverage business. The total provisional goodwill recognised (including amounts previously recorded within associates) is £386 million and represents the anticipated increased profitability arising from the future revenue and cost synergies arising from the combination. In addition, separately identifiable intangible assets of £404 million were recognised, principally relating to distribution franchise rights.

	CSBG		
	Local book values £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	404	404
Property, plant and equipment	187	37	224
Inventories	55	–	55
Trade and other receivables	113	–	113
Trade and other payables	(174)	–	(174)
Borrowings	(348)	–	(348)
Deferred tax on non-deductible brands	22	(132)	(110)
Associates	(279)	–	(279)
Revaluation adjustment arising on acquisition of former associates	–	(56)	(56)
Other	(19)	–	(19)
	(443)	253	(190)
Goodwill			386
			196
Cash consideration			188
Transaction costs			13
Cash paid			201
Net cash acquired			(5)
Net cash paid			196

From the date of acquisition to 31 December 2006, CSBG contributed £753 million to revenue and £30 million to profit before tax.

If the acquisition of CSBG had been completed on the first day of the financial year, Group revenues would have been approximately £7,815 million and Group profit attributable to equity holders of the parent would have been approximately £1,185 million.

Other 2006 acquisitions

During 2006, the Group also acquired All American Bottling Company for £32 million and Seven Up Bottling Company of San Francisco for £26 million, recognising £23 million of provisional goodwill and £29 million of identifiable intangible assets. These acquisitions further strengthen the route-to-market of the Group's US beverage business.

In 2005, the Group invested £17 million in a convertible loan note issued by Cadbury Nigeria. In 2006, the loan note was converted into equity. The Group also acquired further shares in Cadbury Nigeria for £1 million, taking the Group ownership to 50.02%. Goodwill of £9 million was initially recognised as a consequence of both transactions. The total goodwill relating to Cadbury Nigeria, including the historical goodwill arising from previous increases in ownership, of £15 million has been impaired in the year due to the subsequent discovery of the overstatement of the financial position of Cadbury Nigeria.

Other acquisitions in the year included South Africa's leading gum business, from Dan Products (Botswana) (Pty) Ltd, and a further 30% shareholding in Kent, the Turkish confectionery business, taking the Group's total stake in Kent to 95.4%.

The aggregate cash paid in the year (including acquisition costs and spend against acquisition provisions set up at the time of prior year acquisitions) in respect of these other acquisitions was £171 million, on which goodwill of £106 million arose.

Financial statements continued

31. Acquisitions continued

A summary of the net assets and liabilities arising on all other acquisitions during 2006 is set out below:

	Other acquisitions		
	Local book values £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	49	49
Property, plant and equipment	45	7	52
Inventories	21	–	21
Trade and other receivables	23	–	23
Trade and other payables	(49)	–	(49)
Borrowings	(15)	–	(15)
Deferred tax on non-deductible brands	–	(6)	(6)
Minority interests	5	4	9
Associates	(23)	–	(23)
Other	(19)	–	(19)
	(12)	54	42
Goodwill			106
			148
Cash consideration			171
Transaction costs			–
Cash paid			171
Net cash acquired			(23)
Net cash paid			148

The goodwill arising on the acquisitions of All American Bottling Company and Seven Up Bottling Company of San Francisco is provisional as the fair value of plant and machinery acquired in these two acquisitions is provisional. Fair value adjustments will be finalised in the 2007 account. The goodwill recognised on all other acquisitions represents the increased profitability arising from the enhanced route-to-market, enhanced market share in the South African gum market and a greater share of those businesses in which we already had an interest.

2005 acquisitions

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

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

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

The net assets of the companies acquired during the year are not significant in comparison to the Group and there were no other significant provisional fair value adjustments.

2004 acquisitions

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

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

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

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

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

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

The acquisitions contributed £3 million of revenue and £nil to Group profit from operations to the Group's results in 2004.

32. Discontinued operations

In 2005, our beverage businesses in Europe and Syria were classified as discontinued. In 2006, we announced and completed the disposal of our South Africa 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 5 the following income statement and associated notes for 2005 and 2004 have been re-presented on a comparable basis.

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

	2006 £m	2005 £m	2004 £m
Revenue	70	725	726
Trading costs	(67)	(604)	(603)
Restructuring costs	–	(15)	(27)
Amortisation/impairment of intangibles	–	–	–
Non-trading items	–	–	1
Profit from operations	3	106	97
Share of result in associates	–	–	(1)
Profit before financing and taxation	3	106	96
Investment income	–	–	–
Finance costs	(5)	(1)	–
(Loss)/profit before taxation	(2)	105	96
Taxation	4	(20)	(41)
Profit/(loss) on disposal	631	(9)	–
Tax on profit on disposal	(42)	–	–
Release of disposal tax provisions	51	–	–
Net profit attributable to discontinued operations	642	76	55

The results for 2006 represent the results prior to the relevant disposal date. The loss on disposal recorded in 2005 relates to transaction costs incurred before the 2005 year end.

Financial statements continued

32. Discontinued operations continued

(b) Employees and emoluments	2006	2005	2004
	£m	£m	£m
Emoluments of employees, including Directors, comprised:			
Wages and salaries	10	80	87
Social security costs	2	19	22
Share based payments	1	2	1
Post-retirement benefit costs	–	5	2
	13	106	112
	2006	2005	2004
Average employee headcount:			
Discontinued operations	309	3,703	4,118
(c) Profit from operations is after charging:	2006	2005	2004
	£m	£m	£m
Research and product innovation	–	3	3
Depreciation of property, plant and equipment – owned assets	1	18	27
Maintenance and repairs	–	8	8
Advertising and promotional marketing	5	79	77
Impairment in trade receivables	–	1	1
Auditors' remuneration			
Audit services	–	0.5	0.5
	–	0.5	0.5
(d) Taxation	2006	2005	2004
	£m	£m	£m
Current tax – discontinued operations:			
– UK	(27)	(19)	–
– Overseas	(11)	(13)	(12)
– Adjustment in respect of prior year	51	1	–
	13	(31)	(12)
Deferred tax – discontinued operations:			
– UK	–	–	(1)
– Overseas	–	11	(38)
– Adjustment in respect of prior year	–	–	10
	–	11	(29)
Taxation from discontinued operations	13	(20)	(41)

UK tax is calculated at 30% (2005 and 2004: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The current year tax charge primarily represents tax on the disposal of Europe Beverages. The prior year adjustment relates to the release of disposal tax provisions. In 2006, the Group 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. The original disposal gains, net of tax, were treated as discontinued operations and hence the release of the unutilised provisions has been reported in the same line.

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

	2005	2004
	%	%
Tax at the UK corporation rate	30.0	30.0
Tax effect of share of results of associates	–	–
Tax effect of expenses that are not deductible in determining taxable profit	2.9	–
Tax effect of intangible asset	(12.3)	19.7
Tax effect of income not taxable	(0.8)	–
Tax effect of prior period adjustments	(1.3)	(11.1)
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	1.7
Other tax effects	0.5	2.4
Release of disposal provisions	–	–
Effective tax rate for the year for discontinued operations	19.0	42.7

No reconciliation of the tax rate for discontinued operations in 2006 has been provided given the discrete nature of the balances.

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

2005
£m

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

The total assets and total liabilities of the discontinued operations are each shown separately and excluded from the individual line items of the balance sheet in 2005. However, no re-presentation of 2004 was required and the assets and liabilities were included in the individual line items for this year. The disposals of the discontinued beverage businesses in Europe, South Africa and Syria were completed during 2006. As such at 31 December 2006 there are no remaining assets or liabilities relating to these operations. Hence only amounts in respect of the beverage business in Europe and Syria in 2005 are shown above.

Financial statements continued

32. Discontinued operations continued

(f) Cash flows from discontinued operations included in the consolidated cash flow statement are as follows:

	2006 £m	2005 £m	2004 £m
Net cash flows from operating activities	15	93	109
Net cash flows from investing activities	(1)	(13)	(11)
	14	80	98

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

	Earnings			EPS		
	2006 £m	2005 £m	2004 £m	2006 pence	2005 pence	2004 pence
Reported	642	76	55	31.0	3.7	2.7
Restructuring costs	–	15	27	–	0.7	1.4
Non-trading items	(631)	–	(1)	(30.5)	–	(0.1)
IAS 39 adjustment – fair value accounting	–	(1)	n/a	–	–	n/a
Disposal costs	–	9	–	–	0.4	–
Effect of tax on above items	42	(14) ¹	(9)	2.0	(0.7)	(0.4)
Release of disposal tax provisions	(51)	–	–	(2.4)	–	–
Underlying	2	85	72	0.1	4.1	3.6

¹ Includes £11 million deferred tax credit arising on the intra-group transfer of retained brands.

The diluted reported and Underlying earnings are set out below:

	2006 pence	2005 pence	2004 pence
Diluted reported	30.7	3.7	2.7
Diluted Underlying	0.1	4.0	3.6

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

33. Leasing commitments

(a) Finance leases

	Minimum lease payments			Present value of minimum lease payments		
	2006 £m	2005 £m	2004 £m	2006 £m	2005 £m	2004 £m
On leases expiring:						
Within one year	25	23	22	22	20	20
Between one and five years	32	44	68	28	42	65
After five years	8	1	1	5	1	1
	65	68	91	55	63	86
Less future finance charges	(10)	(5)	(5)			
Present value of lease obligations	55	63	86			
Amount due for settlement within 12 months	22	20	20			
Amount due for settlement after 12 months	33	43	66			

It is the Group's policy to lease certain of its plant and equipment under finance leases. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements are entered into for contingent rental payments. The carrying value of the Group's lease obligations approximates their fair value.

(b) Operating leases

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

	2006 £m	2005 £m	2004 £m
Within one year	66	52	57
Between one and five years	190	133	127
After five years	124	113	102
	380	298	286
	2006 £m	2005 £m	2004 £m
Operating lease expenses charged in the income statement	72	57	66

34. Contingent liabilities and financial commitments

- (a) Cadbury Schweppes plc (the 'Company') has guaranteed borrowings and other liabilities of certain subsidiary undertakings, the amounts outstanding and recognised on the Group balance sheet at 31 December 2006 being £3,520 million (2005: £4,064 million; 2004: £3,898 million). In addition, certain of the Company's subsidiaries have guaranteed borrowings of certain other subsidiaries. The amount covered by such arrangements as at 31 December 2006 was £2,658 million (2005: £3,607 million; 2004: £3,592 million). Payment under these guarantees would be required in the event that the relevant subsidiary was unable to pay the guaranteed borrowings when due. These guarantees cover the Group's borrowings of £3,304 million (2005: £4,279 million; 2004: £4,216 million) and have the same maturity.
- (b) Subsidiary undertakings have guarantees and indemnities outstanding amounting to £14 million (2005: £14 million; 2004: £76 million).
- (c) The Company has a contingent obligation to subscribe for loan notes of up to £10 million during the period in respect of which Camelot Group plc has the licence to run the National Lottery (at present until 31 January 2009) and for six months after the termination of the licence. The obligation exists to ensure that Camelot Group plc has sufficient assets to satisfy its liabilities relating to its operation of the National Lottery.
- (d) The Group has given a number of indemnities on certain disposals including as to the ownership of assets and intellectual property, all outstanding tax liabilities, environmental liabilities and product liability claims. These may expire over a period of time up to the local statute of limitations although for ownership of assets and intellectual property these may be indefinite. Where appropriate the Group has made provisions for any liabilities which may crystallise.
- (e) Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Group does not have a significant exposure to any individual customer, counterparty, or to any geographical region. The Group conducts business with banks representing many nationalities, in most cases through offices and branches located in London and maintains strict limits over its exposure to any individual counterparty.
- (f) Group companies are defendants in a number of legal proceedings incidental to their operations. The Group does not expect that the outcome of such proceedings either individually or in the aggregate will have a material effect on the Group's operations, cash flows or financial position.

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35. Notes to the cash flow statement

Reconciliation of cash flow from operating activities

	2006 £m	2005 Re-presented ¹ £m	2004 Re-presented ¹ £m
Profit from operations			
– Continuing operations	909	995	819
– Discontinued operations	3	106	97
	912	1,101	916
Adjustments for:			
Depreciation and amortisation	270	213	222
Restructuring	50	(17)	5
Non-trading items	(40)	(25)	(19)
Post-retirement benefits	(1)	7	19
Additional funding of past service pensions deficit	(67)	(31)	–
Other non-cash items	37	11	40
Operating cash flows before movements in working capital	1,161	1,259	1,183
(Increase)/decrease in inventories	(2)	10	(47)
Decrease/(increase) in receivables	50	(83)	9
(Decrease)/increase in payables	(64)	110	(39)
Net movement in working capital	(16)	37	(77)
	1,145	1,296	1,106
Interest paid	(214)	(230)	(239)
Interest received	28	31	28
Income taxes paid – excluding disposals	(256)	(206)	(150)
Income taxes paid – disposals	(83)	–	–
Net cash from operating activities	620	891	745

¹ Re-presented to include interest paid and interest received within operating activities, see Note 1(b).

36. Group companies

	Activities	Country of incorporation and operation	Proportion of issued share capital held if not 100%
Details of principal associated undertakings			
Camelot Group plc*	(c)	Great Britain (ii)	20%
Meito Adams Company Ltd	(a)	Japan	50%
Crystal Candy (Private) Ltd	(a)	Zimbabwe (i)	49%

Details of principal subsidiary undertakings

Operating companies (unless otherwise stated)

United Kingdom:

Cadbury Trebor Bassett (an unincorporated partnership operating in Great Britain between Cadbury Ltd, Trebor Bassett Ltd and

The Lion Confectionery Co Ltd)	(a)	n/a	
Green & Black's Chocolate Ltd*	(b)	Great Britain	
Reading Scientific Services Ltd*	(c)	Great Britain	

Europe:

Cadbury Belgium NV	(a)	Belgium	
Dandy A/S	(a)	Denmark	
Cadbury Stimorol Danmark A/S	(a)	Denmark	
Cadbury France	(a)	France	
Comptoir Européen de la Confiserie	(a)	France	
Cadbury Hellas AE	(a)	Greece	
Berkeley Re Ltd	(c)	Ireland	
Cadbury Ireland Ltd	(a)	Ireland	
Cadbury Italia SpA#	(a)	Italy	
Cadbury Nederland BV	(a)	Netherlands	
Cadbury CIS BV	(a)	Netherlands	
Cadbury Wedel Sp. zo.o.	(a)	Poland	
Cadbury Portugal – Produtos de Conféitaria, Lda	(a)	Portugal	
DiroI Cadbury LLC	(a)	Russia	
Cadbury España, SL	(a)	Spain	
Cadbury Sweden AB	(a)	Sweden	
Cadbury Switzerland Faguet & Co	(a)	Switzerland	

Financial statements continued

36. Group companies continued

	Activities	Country of incorporation and operation	Proportion of issued share capital held if not 100%
Americas:			
Cadbury Stani Adams Argentina SA	(a)	Argentina (ii)	
Cadbury Adams Brasil Industria e Comercio de Produtos Alimenticios Ltda	(a)	Brazil	
Cadbury Adams Bolivia S.A.	(a)	Bolivia	
Cadbury Adams Canada Inc	(a)	Canada	
Cadbury Beverages Canada Inc	(b)	Canada	
Cadbury Stani Adams Chile Productos Alimenticios Ltda	(a)	Chile	
Cadbury Adams Colombia SA	(a)	Colombia	
Cadbury Adams Costa Rica SA	(a)	Costa Rica	
Cadbury Adams Dominicana S.A.	(a)	Dominican Republic	
Cadbury Adams Ecuador SA	(a)	Ecuador	
Cadbury Adams El Salvador SA de CV	(a)	El Salvador	
Cadbury Adams Guatemala, SA	(a)	Guatemala	
Cadbury Adams Distribuidora Mexico, SA de C.V.	(a)	Mexico	
Cadbury Adams Mexico, S de RL de CV	(a)	Mexico	
Cadbury Schweppes Bottling Group Inc	(b)	US	
Distribuidora Anahuac, SA de CV	(b)	Mexico (ii)	
Distribuidora de Aguas Minerales, SA de CV	(b)	Mexico (ii)	
Cadbury Adams Panama, SA	(a)	Panama	
Cadbury Adams Peru SA	(a)	Peru	
Cadbury Adams USA LLC	(a)	US (i)	
Dr Pepper/Seven Up, Inc	(b)	US	
Mott's LLP	(b)	US	
Pacific Snapple Distributors, Inc	(b)	US	
Snapple Beverage Corp	(b)	US	
Snapple Distributors, Inc	(b)	US	
CAS Uruguay SA	(a)	Uruguay	
Cadbury Adams, SA	(a)	Venezuela	
Other overseas:			
Cadbury Schweppes Pty Ltd	(a)(b)	Australia (i)	
Cadbury Confectionery (Guangzhou) Co, Ltd	(a)	China	
Cadbury Food Co Ltd China	(a)	China	
Trebor Wuxi Confectionery Company Ltd	(a)	China	
Cadbury Egypt Group for Food Industries Company	(a)	Egypt	
The International Company for Gum and Confectionery S.A.E. 'Incogum'	(a)	Egypt	
Cadbury Ghana Ltd	(a)	Ghana	
Cadbury Four Seas Company Ltd	(a)	Hong Kong	70%
Cadbury India Ltd	(a)	India	97.4%
PT Cadbury Indonesia	(a)	Indonesia	
Cadbury Japan Ltd	(a)	Japan	
Cadbury Kenya Ltd	(a)	Kenya	
Cadbury Adams Middle East SAL	(a)	Lebanon	
Cadbury Confectionery Malaysia SB	(a)	Malaysia	65.5%
Cadbury Morocco	(a)	Morocco	
Cadbury Confectionery Ltd	(a)	New Zealand	
Cadbury Pakistan Ltd	(a)	Pakistan	96%
Cadbury Singapore Pte Ltd	(a)	Singapore	
Bromor Foods (Pty) Ltd	(a)	South Africa	
Cadbury South Africa (Pty) Ltd	(a)	South Africa	
Cadbury (Swaziland) (Pty) Ltd	(a)	Swaziland	
Cadbury Adams (Thailand) Ltd	(a)	Thailand	
Kent Gida Maddeleri Sanayii ve Ticaret Anonim Sirketi	(a)	Turkey (ii)	95.4%
Cadbury Nigeria plc	(a)	Nigeria	50.02%††

	Activities	Country of incorporation and operation	Proportion of issued share capital held if not 100%
Finance and holding companies:			
Cadbury Schweppes Australia Ltd	(c)	Australia (ii)	
CS Finance Pty Ltd	(c)	Australia (i)	
Cadbury Schweppes France SAS	(c)	France	
Berkeley Square Investments Ltd*	(c)	Great Britain	
Cadbury Schweppes Asia Pacific Pte Ltd	(c)	Singapore	
Cadbury Schweppes Finance p.l.c.*	(c)	Great Britain	
Cadbury Schweppes Holdings LLC	(c)	Great Britain+ (i)	
Cadbury Schweppes Investments plc*	(c)	Great Britain	
Cadbury Schweppes Overseas Ltd	(c)	Great Britain	
Cadbury Schweppes US Investments Ltd	(c)	Great Britain	
Vantas International Ltd*	(c)	Great Britain	
Cadbury Schweppes Treasury Services	(c)	Ireland (i)	
Adams MeCCA Holdings BV	(c)	Mexico †	
Cadbury Aguas Minerales, SA de CV	(c)	Mexico (i) (ii)	
Cadbury Schweppes Investments BV	(c)	Netherlands (i)	
Cadbury Schweppes Delaware, LP	(c)	US	
Cadbury Schweppes Holdings (U.S.)	(c)	US	
CBI Holdings Inc	(c)	US (i)	

* Investment directly held by Cadbury Schweppes plc

† Incorporated in Netherlands

+ Incorporated in US

Company disposed of on 16 February 2007

†† 45% until 20 February 2006, 50.02% from this date until 31 December 2006

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

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

- (a) Confectionery
- (b) Beverages
- (c) Other (including holding companies)

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

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

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37. Related party transactions

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

Trading transactions

	Sales of goods			Purchases of goods		
	2006 £m	2005 £m	2004 £m	2006 £m	2005 £m	2004 £m
DPSUBG	55	242	285	8	73	5
EE	2	41	35	10	170	123
Meito Adams	6	5	6	39	36	36

	Amounts owed by related parties			Amounts owed to related parties		
	2006 £m	2005 £m	2004 £m	2006 £m	2005 £m	2004 £m
DPSUBG	n/a	36	23	n/a	11	9
EE	n/a	5	–	n/a	8	3
Meito Adams	1	1	–	3	3	2

DPSUBG – Dr Pepper/Seven Up Bottling Group, Inc – until 2 May 2006

EE – L'Europeenne D'Embouteillage SAS – sold on 2 February 2006

Remuneration of key management personnel

Key management of the Group are the Executive Directors and the Chief Executive's Committee (see pages 18 to 20 for details). Short term employee benefits expense relating to these individuals was £9 million (2005: £10 million; 2004: £9 million), post retirement benefits expense was £2 million and share-based payments expense was £10 million (2005: £10 million; 2004: £8 million).

38. Foreign currency translation

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

	Average 2006	Average 2005	Average 2004	Closing 2006	Closing 2005	Closing 2004
US dollar	1.85	1.82	1.83	1.96	1.72	1.92
Canadian dollar	2.09	2.20	2.21	2.28	2.01	2.30
Australian dollar	2.44	2.39	2.48	2.49	2.34	2.45
Euro	1.47	1.46	1.47	1.48	1.46	1.41
South African rand	12.5	11.5	11.7	13.8	10.9	10.8
Mexican peso	20.0	19.8	20.6	21.1	18.3	21.4

39. Changes and proposed changes to generally accepted accounting principles

IFRS 7, "Financial Instruments: Disclosures", introduces new disclosures to improve the information about financial instruments. It requires the disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, 'Financial Instruments: Disclosure and Presentation'. IFRS 7 is effective for fiscal years beginning 1 January 2007. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007, and it is not expected to have a material effect on its disclosures.

IFRS 8, "Operating Segments", which will replace IAS 14, "Segment Reporting", adopts a 'management approach' under which segmental information is presented on the same basis as that used for internal reporting purposes. It is effective for annual periods beginning on or after 1 January 2009. Whilst the standard will not impact the financial position of the Group the current segment reporting disclosures may be subject to change.

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

IFRIC 8, "Scope of IFRS 2", clarifies that transactions within the scope of IFRS 2, "Share-based Payment", include those transactions in which the entity cannot specifically identify some or all of the goods or services received. In particular, if the identifiable consideration received appears to be less than the fair value of the equity instruments granted or liability incurred, typically this circumstance indicates that other consideration has been (or will be) received, in which case IFRS 2 applies. IFRIC 8 is effective for annual periods beginning on or after 1 May 2006. The Group does not currently expect IFRIC 8 to have a material impact on its financial position, results of operations or cash flows.

IFRIC 9, "Reassessment of Embedded Derivatives", clarifies that an entity should assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes party to the contract. Reassessment should only occur if there is a change in the terms of the relevant contract. IFRIC 9 is effective for annual periods beginning on or after 1 June 2006. The Group does not currently expect this interpretation to have a material impact on its financial position, results of operations or cash flows.

IFRIC 10, "Interim Financial Reporting and Impairment", states that impairment losses on goodwill and certain financial assets recognised in an interim financial statement may not be reversed in subsequent interim or annual financial statements. This interpretation is effective for annual periods beginning on or after 1 November 2006. The Group does not currently expect this interpretation to have a material impact on its financial position, results of operations or cash flows.

IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions", provides guidance on whether share-based transactions involving group entities should be accounted for as equity-settled or cash-settled share-based payment transactions. IFRIC 11 is effective for annual periods beginning on or after 1 March 2007. The Group does not currently expect this interpretation to have a material impact on its financial position, results of operations or cash flows.

IFRIC 12, "Service Concession Arrangements", addresses the accounting by operators of public-private service concession arrangements. IFRIC 12 is effective for annual periods beginning on or after 1 January 2008. The Group does not currently expect this interpretation to have a material impact on its financial position, results of operations or cash flows.

40. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 9 March 2007.