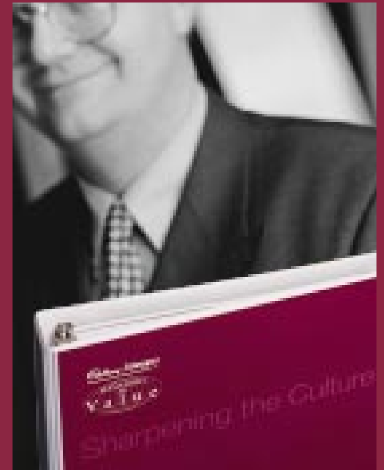
Managing for Value



Cadbury Schweppes

Annual Report and Form 20-F 1998

Results Summary

	1998	1997	% Change As reported	% Change At constant exchange rates
Sales (a)	**£4,106m**	£4,173m	–2%	+4%
Trading profit before exceptional items and restructuring costs (a)	**£642m**	£624m	+3%	+8%
Trading margin before exceptional items (a)	**15.3%**	14.5%	+0.8pts	+0.8pts
Profit before tax, exceptional items and disposals	**£609m**	£575m	+6%	+11%
Basic earnings per share	**35.0p**	68.7p	N/A	N/A
Underlying earnings per share (b)	**39.4p**	37.2p	+6%	+11%
Net dividend per share	**19.0p**	18.0p	+6%	+6%
Capital expenditure (a)	**£162m**	£209m	–22%	–18%
Marketing expenditure (a)	**£726m**	£706m	+3%	+6%
Free cash flow	**£157m**	£157m	Nil	N/A
Total Group employees	**38,656**	41,320	–6%	N/A

(a) From continuing operations

(b) Represents Basic earnings per share adjusted to exclude exceptional items and gains and losses on disposals of subsidiaries and investments

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This is the Annual Report and Form 20-F for the year ended 2 January 1999. It contains the annual report and accounts in accordance with UK generally accepted accounting principles and regulations and incorporates the annual report on Form 20-F for the Securities and Exchange Commission in the US.

A Summary Financial Statement for the year ended 2 January 1999 has been sent to all shareholders who have not elected to receive this Annual Report and Form 20-F.

The Annual General Meeting will be held on Thursday, 6 May 1999. The Notice of Meeting, details of the business to be transacted and arrangements for the Meeting are contained in the separate Annual General Meeting booklet sent to all shareholders.

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Letter to Shareowners

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1998 was an important year for Cadbury Schweppes for three key reasons:

1 During the year we announced a number of important strategic initiatives:

- By far the most important was the proposed disposal of our Beverages operations outside the US. This is subject to regulatory approvals and will take some months to complete.

As a result of this development, your Company will have a stronger business base comprising global confectionery and US beverages. On receipt of the disposal proceeds we will have significant resources available for further development of the Group, both organically and by acquisition.

Other developments were:

- The strengthening of our route to market for our soft drinks brands within the US
- The acquisition of the Wedel confectionery business in Poland.

2 1998 was also the first full year in which our Managing for Value programme was adopted throughout Cadbury Schweppes. The impact of this programme has had a major influence on both our operational and strategic decision making processes and on the culture and behavioural characteristics of the Company.

3 Finally, against a background of substantial economic upheaval, particularly in Asia and Eastern Europe, your business performed strongly in trading terms.

Sales from continuing operations of £4,106 million increased by 4%, excluding the adverse impact of exchange rate movements. On a constant exchange rate basis, profit before tax, exceptionals and disposals increased by 11% to £609 million. Disposals realised a pre-tax profit of £38 million. A £68 million exceptional charge to the profit and loss account primarily relates to the write-down of the confectionery assets in Russia in the wake of the economic collapse in that country. Underlying earnings per share of 39.4p were 11% higher than last year on a constant exchange rate basis.

Sir Dominic Cadbury, Chairman (left)
John Sunderland, Group Chief Executive

Sale of the Non-US Beverages Operations

Without doubt the most significant event during 1998 was our agreement in December to sell to The Coca-Cola Company ("TCCC") most of our beverages brands and concentrate plants outside the US, France and South Africa. The anticipated sale to TCCC will realise US$1.85 billion (£1.1 billion).

As a result of this agreement, we also announced the proposed separate sale of the associated bottling assets and a number of minor brands, which are expected to raise at least a further £500 million. The separate disposal of the bottling and other related assets is expected to take place over the next twelve months.

Our decision to sell our extensive non-US beverages operations followed detailed reviews of our businesses and their opportunities for long-term, sustainable value-creation.

- While we have nearly 15% share of the enormous US carbonated soft drinks market, we only have a 3% share in the rest of the world. Of the 160 markets in which we operate outside the US, we have less than a 10% share in over one hundred.
- Our lead brand – Schweppes – while strong in its niche, is not mainstream and although Dr Pepper has significant international potential, currently less than 3% of its bottler volumes are sold outside the US.

Our non-US beverages business is both economically profitable and growing. However, the modest market share, combined with the complex route to market, constrains the ability of the business to create sustainable value over the longer term.

The US$1.85 billion consideration for the disposal of our non-US beverages brands will create substantial value. It is equivalent to 22 times trading profit of these businesses in 1998 and will net us a profit over book value of approximately £650 million.

In 1998 these businesses accounted for less than 9% of Group trading profit before exceptional items. Beverages will remain a significant contributor to Group earnings through: Dr Pepper/Seven Up, Inc. ("DPSU"), a major player in the US, by far the largest soft drinks market in the world; our 39.3% stake in The American Bottling Company ("ABC"); Mott's North America; Bromor in South Africa and Cottee's Foods in Australia. On a pro forma basis, beverages will still account for over 52% of overall Group trading profit.

On the conclusion of these transactions, Cadbury Schweppes will have substantial net cash and an immensely strong balance sheet, giving us all the resources we need to fund the development of our continuing business both organically and by acquisition.

Other Business Developments

We also took important steps during the year to strengthen the route to market for our beverages brands in the US. In the US, our brands are produced and distributed through each of the three bottling systems: TCCC aligned, Pepsi aligned and an independent system through which the majority of other brand owners distribute their brands.

In January, we announced the extension of DPSU's licensing agreement with Coca-Cola Enterprises Inc., and in December we signed a new bottling contract with the Pepsi Bottling Group, the largest bottlers in the US for Coca-Cola and Pepsi respectively. Both these contracts provide increased security and performance for DPSU's major brands.

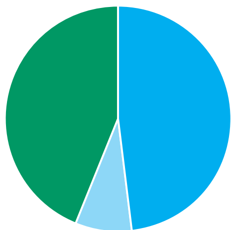
Carbonated soft drinks market share by region

	Market Share
US	15%
Western Europe	3%
Eastern Europe	3%
Latin America	3%
Asia Pacific	2%
Africa	4%

Pro forma Trading Profit*

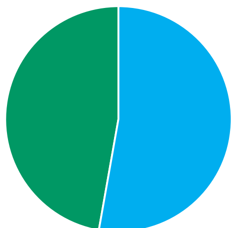
Group profit before beverages disposal

- Remaining beverages business in US, France and South Africa
- Disposal of beverages business
- Confectionery



Group profit after beverages disposal

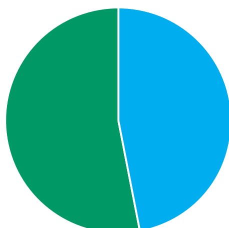
- Beverages
- Confectionery



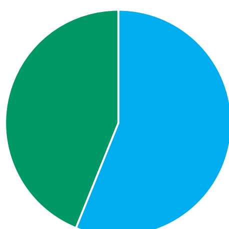
*Excluding restructuring costs and exceptional items

Stream Sales and Trading Profit

Sales £4,106m

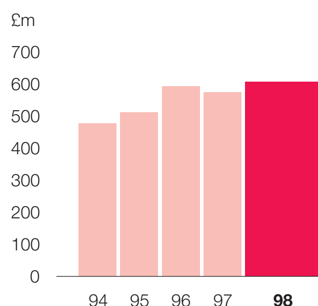


Trading profit £642m*



*Excluding restructuring costs and exceptional items

Profit before Tax*



*Excluding disposals and exceptional items

Also in February, we announced the establishment of an associate company in the independent bottling sector, The American Bottling Company ("ABC"), in which we took a 39.3% stake. Of the remaining investment, 60% is held by a US based investment company, The Carlyle Group. During the year, ABC acquired three companies in the Midwest, creating the largest independent bottling operation in the US, with sales of nearly US$1 billion. In September, ABC announced a major restructuring and investment programme with the primary aim of consolidating production from nine to five sites and extending product distribution through higher margin channels, for example, through chilled cabinets and vending machines. The restructuring programme will enhance significantly ABC's cost competitiveness and create additional resources for reinvestment in growing the business.

In the Confectionery stream in September, we announced the acquisition of Wedel, a Polish confectionery business, a significant addition to our existing start-up operation Cadbury Poland. Together, these companies give us clear leadership of this growing market. The acquisition was completed in January 1999.

Business Review

At constant exchange rates, trading profit excluding restructuring costs and exceptional items rose by 8%. The impact of the strong pound and weakening of a number of currencies notably those of Australia, Canada and South Africa, reduced this progress to 3%. Trading margins for the Group rose by 0.8 points to 15.3% with an improvement in both the Confectionery and Beverages streams.

After a strong first six months, progress for the year as a whole was tempered by the crises in emerging markets, particularly Russia, and, to a lesser extent, by the consequent slowdown in the world economy. We estimate that the direct impact of the Russian economic collapse on our European confectionery business (our companies in Germany, France, Poland and Spain were also affected) reduced Confectionery stream growth in trading profit from 10% to 6%.

Volume for the Group in 1998 was in line with 1997. This reflected not only the issues in emerging markets but also a deliberate focus on the development of profitable brands. For example, at Trebor Bassett and Schweppes Spain, where our Managing for Value programmes were first introduced, trading profit rose strongly although less profitable business was discontinued.

Russia

In 1996, we opened a £75 million confectionery factory outside St Petersburg following a number of years of rapid growth in exports to Russia from Group companies. Until August last year, we were continuing to make satisfactory progress in this business. However, following the sudden collapse in the domestic economy, margins reduced and trading losses in 1998 were higher than had been anticipated.

As a consequence of this change, and the greater uncertainty about the Russian economy, we have decided to take a £68 million exceptional charge to write down the carrying value of our Russian assets. This also accords with the recently introduced accounting standard, FRS 11.

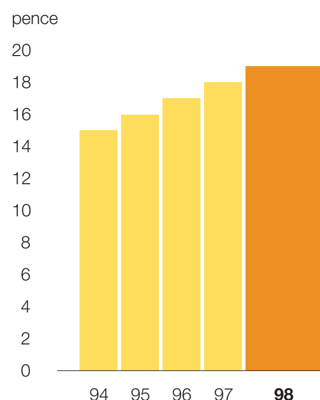
We remain committed to developing our business in Russia, the second largest confectionery market in the world. However we will need to redesign our business model to align with the changed economic circumstances, and this will be a major priority for 1999.

Strategy

Cadbury Schweppes' governing objective remains the creation of value for shareowners. Our strategy to achieve this is based on:

- Focusing on our growth markets of global confectionery and US beverages
- Building strong brands and businesses with sustainable competitive advantage
- Developing our market share through innovation
- Developing the business through value enhancing acquisitions and organic investment in specific markets.

Underpinning these activities is our business philosophy of Managing for Value. This is described in greater detail on pages 10 and 11.



Dividends

The Board is recommending a final dividend of 13.2p. Dividends for the full year will total 19.0p, a 6% increase over 1997.

Share Buy-Back and Share Split

The Group is strongly cash generative and on receipt of the disposal proceeds for the non-US beverages operations, we will be in a net cash position. We are therefore well positioned to make value enhancing acquisitions. As we seek this opportunity, however, our balance sheet will become increasingly inefficient and we wish to retain the flexibility to amend the mix of debt and Shareholders' funds to its optimum level for the long term benefit of all shareowners. We will therefore again be seeking shareholder approval at the Annual General Meeting for authority to purchase our own ordinary shares as and if appropriate.

The 65% increase in our share price during 1998 has created a high share price, which inhibits the marketability and liquidity of the ordinary shares. Accordingly we will be seeking shareholders' approval at the Annual General Meeting to divide each ordinary share of 25p into two ordinary shares of 12.5p.

The Board

It is with regret that we report that Tom Hutchison, who retired as Deputy Chairman in May 1998, died in June. He joined our Board in 1986 and made a significant contribution to the Group over the past twelve years. We gained enormously from his wise counsel and breadth of experience.

David Thompson was appointed as a Non-Executive Director on 9 March 1998. He is Joint Group Managing Director of The Boots Company PLC and brings considerable financial and retail experience of business both in the UK and North America.

People

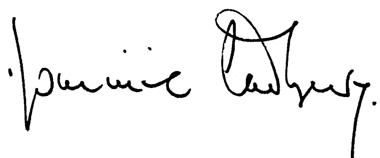
Our people are the stewards of the Company's brands and assets and it is they who have enabled your Company to achieve these strong results in 1998. Their commitment and belief in the Company is evidenced by the fact that over 20,000 of our employees are shareowners or eligible to participate in a share option programme.

We are grateful for the commitment our people have shown to the Group in a year which has seen significant change to the way we operate in our businesses around the world. The Group's preparation for the Year 2000 issue and the introduction of the euro have created additional work at all levels around the Group. We thank everyone for ensuring that our contingency plans are in place and our programmes for conversion are well advanced.

It would be inappropriate not to recognise that the announcement of the sale of the non-US beverages business has created a period of uncertainty for many of the employees in the Beverages stream. We have secured comparable terms of employment for those of our employees transferring to TCCC. We will do our best to ensure equally good terms and conditions with the buyers of the bottling and other assets which are to be sold.

The Future

In the difficult market conditions of 1998, your business performed well, a testament to the strength of the underlying business, its management and employees. The Managing for Value programme has been embraced throughout the Group in 1998 and had a positive impact on performance. While the slowdown in the world's economies and in particular the ongoing emerging market problems mean that 1999 will be another challenging year, we look forward to it with confidence.



Sir Dominic Cadbury
Chairman

John Sunderland
Group Chief Executive

Managing for Value

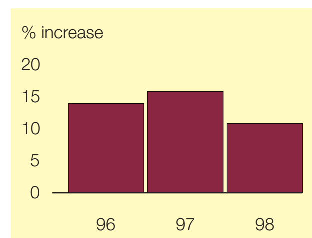
Our primary objective is to grow the value of the business for our shareowners.

Managing for Value is the business philosophy which unites all our activities in pursuit of this objective.

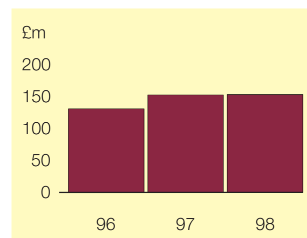
The objective is quantified. We have set three financial targets to measure our progress:

1 to increase our earnings per share by at least **10%** every year
2 to generate **£150 million** of free cash flow every year
3 to **double** the value of our shareowners' investment within four years.

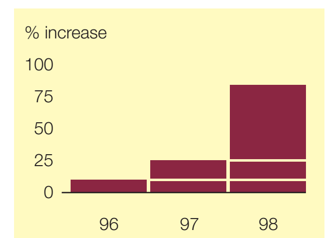
Our approach to this task is holistic. We seek simultaneously to develop better strategies, upgrade our business culture and align our reward structure with the interests of our shareowners.



Underlying Earnings per Share
To deliver double digit earnings growth (at constant exchange rates and excluding exceptional items)



Cash Flow
To generate £150 million p.a. free cash flow



Cumulative Total Shareholder Return
To double shareowner value within 4 years from 1996 to 2000

Strategy: we employ Value Based Management techniques to improve our strategic and operational decision-making.

Value Based Management is a systematic way of analysing and understanding a business, the market in which it operates, its strengths and its weaknesses as well as those of its competitors. We then seek to develop better strategies which will produce step changes in the competitive performance, returns and ultimately the ability of the business to create sustainable long term growth in value.

Culture: is about people, how they deliver, what they are accountable for, how aggressive they are in pursuit of their objectives and how adaptable they are in the face of change. At Cadbury Schweppes, we believe Managing for Value is relevant to all employees.

We have defined a series of Leadership Imperatives which focus on building stronger management skills. Our Sharpening the Culture programme involves all employees in understanding the drivers of value creation and the role they can play.

Rewards: our reward systems are increasingly linked to the creation of value. We also promote employee shareownership through a variety of schemes.

Employees as shareowners is the ultimate alignment of interest.

The following pages present an insight into a few of the ways in which Managing for Value is being embraced within Cadbury Schweppes.

Cadbury's
Cadbury
DAIRY MILK

Utilising our assets

Our focus on creating value requires the optimal utilisation of our assets, be they people, brands or factories. They are all vital components in managing costs and winning consumers.

Our greatest confectionery brand asset, Cadbury's Dairy Milk megabrand, has been redesigned and relaunched in new international brand graphics across its full range of variants. The core icons of Cadbury's Dairy Milk – the Cadbury script, Cadbury purple, the Glass and a Half symbol and the chocolate chunk – are projected in a contemporary, impactful and distinctive way. This strong and unique identity is reflected throughout Cadbury's Dairy Milk brand marketing and advertising activities and a worldwide programme is being rolled out for the first time to bring together a truly global presentation of the brand. Synergies will be achieved through international sourcing and support.

Repackaging a megabrand

Mott's focus on value creation led to a US$18 million investment at our Tecate plant in Mexico which is now producing Clamato and other Mott's juices for Mexico and the western third of the US.

International sourcing of products from other parts of the Group is proving increasingly cost effective. TimeOut is sold in more than 16 major markets but made in only two factories. Marble, a more recent innovation, is produced in our low-cost Argentinian facility for sale in the UK.

Long established brands still have attractive profit and growth potential. Fry's Turkish Delight has a loyal consumer following and increased marketing spend and support is planned to refresh the brand's appeal.

Strong profit performance from Trebor Bassett's highest value brands, including Trebor Extra Strong Mints, came from volume growth 6% up on 1997 and manufacturing cost reduction.

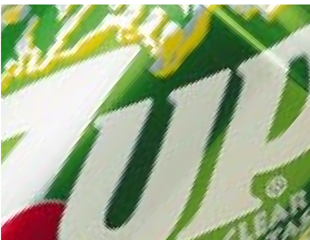
Strategic value developments

The key to driving profitable growth in the US, the world's largest soft drinks market, is to align our business with those bottling systems which can offer security and growth for our brands.

Nearly 80% of Dr Pepper and Schweppes volume is licensed to Coca-Cola and Pepsi aligned bottlers. In 1998 we took steps to strengthen distribution and growth opportunities through:

- An extension of our licensing agreement with Coca-Cola Enterprises, the predominant Coke bottler in the US
- A multi-year bottling agreement with the Pepsi Bottling Group, Pepsi's largest US bottler
- Our investment, with a partner, to create The American Bottling Company brought together three independent Midwest bottlers to form the largest independent bottling company in the US with sales of nearly US$1 billion.

Securing our route to market



Strategies to enhance 7 UP's performance in 1999 include youth oriented advertising and promotions and increased focus in the Pepsi and independent bottling systems.

Schweppes remained the No. 1 tonic and No. 2 club soda in the US in 1998, while launching bold new graphics and unifying international advertising.

A&W Root Beer, the US's No. 1 root beer for more than 20 years, grew market share in 1998 to record a 28% share of its category. In 1999, A&W is returning to television with its humorous "Good to be Thick Headed" campaign, aimed at men between 18 and 34.

Sunkist, the No. 1 orange soda in the US, grew 9% in 1998 compared to total orange category growth of 3%. Reflecting the fun, freedom and sociability of young people between 12 and 24, Sunkist's 1999 TV campaign features the sun and fun theme "Sunkist – One Nation under the Sun".

"Sunkist" is a registered trademark of Sunkist Growers, Inc.

Dr Pepper®
12 FL OZ
(355 mL)

E.Wedel
Czekolada
Mleczna
w środku
łamigłówki
dla każdego

Growing our business

Acquisitions that generate value are important to our strategies for profitable growth. We apply rigorous criteria to ensure we only make acquisitions based on a thorough understanding of the attractiveness of a market and where our brands have clear competitive advantage.

Poland has one of the strongest economies in Central and Eastern Europe. Between 1990 and 1997 the Polish chocolate market grew at an average of 17% p.a. and it is one of the largest moulded chocolate markets in Europe. Our acquisition of its leading chocolate brand, Wedel, fits well with Cadbury Poland and gives us a strong leadership position across all chocolate segments.

Established in Poland for over 147 years, Wedel is widely regarded as a national icon. Synonymous with a great taste, Wedel, together with Cadbury Poland, provides a platform to identify other opportunities to create value in the developing Central European markets.

Adding value through acquisitions

Wedel's Mleczna is the best selling milk chocolate in Poland and is available in 100g and 180g bars. The second biggest brand is Wedel's Gorzka chocolate, whose traditional recipe is enjoyed by older Polish consumers.

Wedel launched Pasjonata in October 1997 as the perfect gift for all occasions. The Wedel and Cadbury brands are highly complementary, giving us extensive presence across all chocolate market segments.

Aimed at women between 16 and 44 with the advertising tag-line "Sweet, light, Snackomity", Cadbury's Snack was launched in Poland in September 1998.

Launched in Poland in 1995 and targeted at 15 to 24 year olds, television commercials for Cadbury's Picnic encourage Polish consumers to try "Cadbury's Picnic. Bite it!"

Developing talent

As part of Managing for Value we have introduced extensive learning and development programmes around the world to ensure that all employees can contribute to its success.

Top teams from all business units have participated in intensive four day workshops, returning to their businesses equipped with clear strategies for implementing Managing for Value locally.

A computer-based financial training package has been developed to improve the financial knowledge of all employees and ensure they have the ability to apply the principles of Value Based Management effectively. 4,000 people have so far joined in this training programme.

Investing in people

CS News

Special Report

Sale of non-US beverage business

In 1998 we launched a worldwide electronic news bulletin to help ensure employees are kept informed about the business and progress of MFV.

Improving the financial skills of our people is critical to the long term success of MFV. A computer-based training package customised for Cadbury Schweppes is helping improve the financial skills and knowledge of our employees around the world.

Workshops run for senior management teams are ensuring that every business unit in the Group embraces MFV and develops specific plans and goals for its introduction in their business.

MFV is relevant to everyone throughout our Company, top to bottom, and considerable effort continues to be committed to embracing cultural change. 1999 will see the programme extended even more deeply into the organisation.

Cadbury Schweppes
MANAGING for Value
Sharpening the Culture

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2 Description of Business

Introduction

Cadbury Schweppes plc (the "Company") and its subsidiary and associated undertakings (the "Group") are principally engaged in the manufacture and distribution for sale of branded beverages and confectionery, and related foods, supplied through wholesale and retail outlets of the confectionery, licensed, catering and grocery trades in over 200 countries throughout the world. The Group is focused on the beverages and confectionery businesses, two closely related consumer markets, and manages an extensive portfolio of brands. In 1998, the Group had net sales of £4,106 million and trading profit (before exceptionals) of £628 million, of which 47% of net sales and 58% of trading profit were derived from the Beverages stream and 53% and 42%, respectively, were derived from the Confectionery stream.

In December 1998, the Group announced the disposal of the majority of its non-US beverages operations. The decision to sell followed detailed reviews of the Group's businesses. On completion of the transaction, Cadbury Schweppes will be principally focused on global confectionery and US beverages. Further pro forma information is detailed in Note 28 to the Financial Statements.

Group Strategy

The Group's governing objective is to maximise growth in shareowner value. In pursuit of this goal, its strategy is based on competing in the two growth markets of global confectionery and US beverages with strong brands which earn high margins and generate substantial cash flows. The Group intends to grow profitable volume and market share by innovation in products, packaging and route to market, by development through value enhancing acquisitions and by creating an organisation focused on the principle of "Managing for Value".

Introduced into the Group in the Spring of 1997, Managing for Value is a total business approach to growing shareowner value. Value Based Management is the systematic process which has been put in place to identify the generators of economic profit for the Group and hone strategic focus. Fundamental change is taking place throughout the business through a programme to sharpen the management culture; develop an outstanding management team; and introduce new remuneration schemes to align more closely the interests of management with those of shareowners.

Business Segments

The Group's businesses are divided into two product streams: beverages and confectionery.

Beverages Stream

In beverages, the Group's strategy is to develop and expand the markets for its various brands by using the most efficient and value creating route to market; this may take the form of licensing agreements, partnership arrangements or company owned bottling operations.

On 11 December 1998, the Group announced the disposal of the majority of its non-US beverages brands and its intention to sell the associated bottling assets separately. The decision to dispose of these assets reflects the Group's modest market share outside the US and complex and fragmented route to market.

The Beverages stream's principal products are carbonated soft drinks, mineral waters, still drinks, concentrates and syrups. Schweppes, Dr Pepper and 7 UP are the Group's key beverage brands. 7 UP is owned in the US and Puerto Rico only. Important regional and local beverage brands include Crush, Canada Dry, A&W, Squirt, Oasis and the Peñafiel range of mineral waters in Mexico. The Mott's apple brands, Clamato juices and a variety of speciality products are produced for the North American market and for export.

The brand range includes Solo and the Cottee's range in Australia and Gini and Trinaranjus in Europe. Important licensed products include Sunkist and, in the US, Crystal Light, Country Time and Welch's.

Through its Beverages stream, the Group operates primarily as a licensor, selling concentrate and syrups to independently owned bottling and canning operations (certain of which are affiliated with competitors) to which it also provides marketing support and technical manufacturing oversight. In Great Britain, South America, Asia, the Middle East, Eastern Europe and (for carbonated beverages) North America and South Africa, the Group licenses its brands. The processes and operations of these independently owned bottlers and canners are monitored by the Group to ensure high product standards. The Beverages stream has bottling and partnership operations in 14 countries and licenses its brands in a further 89 countries around the world.

In Australia, Belgium, Mexico, Portugal, South Africa (for concentrated beverages), Spain and the US (for Mott's), the Group manufactures, bottles, markets, sells and distributes its soft drinks. The Group has announced that 20 of these bottling operations are to be sold. In the US, the Group has a 39.3% stake in The American Bottling Company ("ABC"), an independent bottling company in the Midwest.

In those countries where the Group operates as licensor, the Group enters into licensing agreements with local bottlers. In the normal course of business, changes to these agreements are made to reflect changing business conditions, including the addition or deletion of certain brands. During 1998 in the US, the Group extended a licensing agreement with Coca-Cola Enterprises Inc. ("CCE") and signed a new contract with the Pepsi Bottling Group ("PBG").

Aside from non-carbonated beverages in the US, sales of the Group's products are made through the Group's or independent bottlers' sales forces. In the US, sales of Mott's products and a limited range of carbonated beverages are made through independent brokers.

The Group's products are sold through many different outlets from licensed and grocery stores, garage forecourts (gas stations) and convenience stores to vending and fountain equipment at leisure, food and entertainment venues.

The Beverages stream's products are sold in cans, glass bottles, plastic bottles and aseptic packages.

The volume of sales in the soft drinks business can be affected by weather and is, to some extent, seasonal, peaking in the summer months in many countries and at the time of festive holiday occasions such as Christmas. The seasonality of the Group's soft drinks business complements, to some degree, that of its confectionery business which has a seasonal bias towards the colder months, so that fluctuations at the Group level are reduced.

Confectionery Stream

In chocolate and sugar confectionery, the Group's strategy is to build strong positions in prioritised markets through internal growth and value enhancing acquisitions. In addition, the Group seeks to identify best practice within its operations and implement it across the stream to realise efficiencies and enhance competitiveness.

Through its Confectionery stream, the Group is one of the leading international manufacturers of both chocolate and sugar confectionery, with manufacturing plants in 25 countries and sales in a further 170. The Confectionery stream produces and markets a broad range of chocolate and sugar confectionery brands in the form of bars, blocks, bagged products, rolls, boxed assortments, chocolate eggs and novelties.

Confectionery Stream continued

Cadbury is a leading international brand name in chocolate confectionery. Chocolate confectionery is sold around the world under the Cadbury name and includes power brands such as Cadbury's Dairy Milk, TimeOut, Picnic and Roses. The Group's other chocolate confectionery brands include Poulain and Bouquet d'Or in France, Piasten in Germany, Wedel in Poland, MacRobertson and Red Tulip in Australia and Neilson in Canada. In the US, certain confectionery products under the Group's Cadbury, Peter Paul and York brands are manufactured under licence.

The Group believes that it is one of the two largest sugar confectionery businesses globally (excluding chewing gum), based on sales value. Sugar confectionery is sold internationally under the Trebor, Bassett and Pascall brands and includes products such as Cadbury's Eclairs, Trebor Softmints, Bassett's Liquorice Allsorts and Bassett's Jelly Babies. Other important regional sugar confectionery brands include Barratt, Maynards and Sharps in the UK, Stani in Argentina, Allan in Canada and the US, La Pie Qui Chante and Carambar in France and Dulciora in Spain.

The Group's confectionery products are sold primarily through grocery stores, confectionery outlets, garage forecourts (gas stations) and kiosks. In its principal markets, the Group's confectionery products are sold and distributed to customers through the Group's own sales and distribution organisations.

The chocolate confectionery business has a seasonal bias towards the colder months and special gift occasions such as New Year, Mother's Day, Easter, Hallowe'en and Christmas.

Group Development

The Group has developed its business both through organic growth of existing brands and products and through acquisitions, investments and contractual arrangements with other parties which have strengthened its operations and its portfolio of brands.

During the past five years, the Group has spent a total of £2,342 million on acquisitions and £1,097 million on capital expenditure. These activities have included a number of significant acquisitions and investments to expand existing brands in the Group's historical markets as well as new markets such as Poland, China and Russia. During this period, the Group has increased net sales from continuing operations to £4,106 million in 1998 from £3,236 million in 1994, improved trading margin from continuing operations before exceptionals to 15.3% in 1998 from 12.3% in 1994 and increased net income to £355 million in 1998 from £262 million in 1994.

1999

On 29 January 1999, the Group acquired Wedel, Poland's leading chocolate confectionery brand, and the related assets for US$77 million. The business had sales of US$80 million in 1997 and employs approximately 980 people. The business will be run in conjunction with Cadbury Poland and will give the Group the leading position in the developing Polish chocolate market. The Group had already established Cadbury Poland and built a chocolate factory at Wroclaw, as part of a strategy of expanding the presence of its brands in Eastern Europe. This factory started production in 1994 and Cadbury Poland began trading profitably in 1996.

1998

On 11 December 1998, the Group announced an agreement to sell, to The Coca-Cola Company ("TCCC") for US$1.85 billion, the Group's beverages brands and concentrate plants outside the US, France and South Africa. Consummation of the transaction depends upon the receipt of regulatory approval in a number of countries which the

Group anticipates it will receive in 1999. In 1998, these businesses accounted for less than 9% of Group trading profits before exceptional items and further pro forma information is provided in Note 28 to the Financial Statements. As a consequence of this agreement, the Group also announced its intention to sell separately the associated bottling assets outside the US, France and South Africa. It is estimated that the sale of these assets will raise at least £500 million.

On 7 December 1998, DPSU entered into a new multi-year agreement with PBG, designed to ensure the future growth and security of DPSU soft drinks brands in the PBG system.

On 23 February 1998, the Group announced the establishment of an associate to invest in soft drinks bottling in the US. On 1 May 1998, the new associate company, The American Bottling Company ("ABC"), acquired two independent bottling groups in the Midwest, Beverage America and Select Beverages, for a total cash consideration of US$724 million. On 4 November 1998, ABC announced the acquisition of the Cotton Club Bottling Company of Cleveland, Ohio. The Group's share of the equity of ABC is 39.3% with the balance held by an investment partner The Carlyle Group. The initial funding of ABC was US$300 million of equity, of which the Group's share was US$120 million. The Group also advanced US$20 million in loan capital to ABC with the balance of the financing for ABC's acquisitions in external bank debt.

On 14 January 1998, the Group announced the signing by DPSU of an agreement with CCE pursuant to which CCE will continue to manufacture and distribute Dr Pepper products in the US until at least 31 December 2005 and certain other DPSU brands until at least 31 December 2001.

At the end of 1998, the Group acquired the minority interests in Trebor Allan Inc. in Canada, Jaret International (CS) Inc. in the US and Piasten in Germany under the terms of the respective shareholder agreements. Payment for these transactions will be made in the first quarter of 1999.

1994 to 1997

In December 1997, the Group acquired the assets of La Pie Qui Chante, giving the Group joint leadership position in sugar confectionery in France. In February 1997, the Group purchased Food Industries Development Co. ("Bim Bim"), an Egyptian based company which is the largest confectionery business in the Middle East and North Africa region. In January 1997, the Group purchased an 80% interest in Jaret International (CS) Inc., a US confectionery distribution business.

Between 1987 and February 1997 the Group held a 51% interest in its bottler in Great Britain, Coca-Cola & Schweppes Beverages Ltd ("CCSB"), with the remaining 49% being held by TCCC. Both the Group and TCCC completed the sale of their interests in CCSB to CCE in February 1997.

In 1996, the Group acquired the assets of Neilson Cadbury, a Canadian chocolate confectionery manufacturer. Since 1987, Cadbury chocolate confectionery brands had been distributed in Canada under licence to this company. In 1995, the Group acquired control of the Allan Candy Group, renamed Trebor Allan, a manufacturer of sugar confectionery and some seasonal chocolate products in Canada. These acquisitions gave the Group leadership in the confectionery market in Canada.

In 1996 the Group entered into an agreement with Acqua Minerale San Benedetto S.p.a. ("San Benedetto"), an Italian producer of mineral water and soft drinks, for the manufacture and distribution of the Group's and San Benedetto's beverage brands in France.

1994 to 1997 continued

In 1995, the Group acquired the 74.7% of the shares of common stock of DPSU not already held by it for a total consideration of US$1.71 billion. With the addition of DPSU, the Group's US carbonated soft drinks market share increased from approximately 5% in 1994 to approximately 14.4% in 1998 by unit volumes. The principal products in the US include concentrate and syrups used in connection with the manufacture, distribution and sale of soft drinks under the Dr Pepper, Diet Dr Pepper, 7 UP, Diet 7 UP and Welch's brands.

The Group has also expanded its business in developing consumer markets by entering into investments with other market participants or other transactions which it believes will position it to benefit from anticipated economic growth in such markets.

The Group holds a 75% interest in a confectionery company in China which commenced local production at a factory near Beijing in 1995. In 1995, a company was established in Russia through which the Group distributes confectionery in that country. A chocolate confectionery factory near St. Petersburg began production in late 1996. The total capital expenditure investment in this factory was £75 million. The acquisitions of Bim Bim in Egypt, majority control of Cadbury Egypt and Cadbury India and a major investment in chocolate manufacturing in Argentina were also part of this strategy of expanding into emerging consumer markets.

Other transactions in the past five years have included the purchase by the Confectionery stream of chocolate and sugar confectionery businesses in various markets, principally in the UK and Western Europe and acquisitions of distribution and related assets by the Beverages stream.

Additionally, in 1994, the Group paid £11 million for a stake in Camelot Group plc, which holds the licence to operate the UK National Lottery. National Lottery tickets are sold alongside the Group's confectionery and beverage products in retail outlets as well as a wide range of other sales outlets.

Competition

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

Beverages Stream

The soft drinks industry includes a number of brand owners who act as licensors of branded products. As a result of the DPSU acquisition, the Group became the third largest carbonated soft drinks company in the world by sales volume.

On 11 December 1998, the Group announced an agreement to sell its non-US beverages brands excluding France and South Africa. Through DPSU in the US, which has a 14.4% share of that market, the Group will remain the third largest carbonated soft drinks company worldwide by sales volume.

Confectionery Stream

The Group believes that it ranks in the four largest confectionery companies in the world by sales value. The chocolate confectionery market is primarily a branded market. By contrast, the sugar confectionery market is significantly more fragmented, with a greater presence of local and regional brands and private label products.

Trademarks and Brands

The Group has registered trademarks throughout the world and is the owner of numerous licences, patents and trade secrets, as well as substantial know-how and technology which relate to its products and the processes for their production, to the packages used for its products and to the design and operation of various processes and equipment used in its businesses.

An amount of £1,561 million has been included in the Group's balance sheet at 2 January 1999 to reflect the cost of brands acquired since 1985. While the Group does not charge annual amortisation of this cost in its UK GAAP accounts, in the event of any diminution in value, an appropriate charge would be made against income.

Employees

The average number of employees of the Group analysed by region is summarised in Table 2.

Table 2

	1998	1997
Number of Employees		
UK	**8,374**	10,052
Europe	**6,834**	6,634
Americas	**9,047**	9,124
Pacific Rim	**5,696**	5,875
Africa and Others	**8,705**	9,635
Total	**38,656**	41,320

The aggregate gross remuneration including bonuses of persons employed by the Group, in the Company and its subsidiary undertakings in the UK, was £243 million (1997: £231 million).

Learning and Development

The Group's ability to sustain a competitive advantage over the long term will depend in large part on the continuous development of the Group's employees. For this reason the Group is committed to providing an environment which values continuous learning and which provides learning and development opportunities both within business units and across the Group. Development is a shared responsibility and employees for their part must possess the drive and initiative to take advantage of the available learning and development opportunities.

Each of the business units provides the relevant systems and programmes to meet the learning and development needs of its employees and of the business. These needs vary significantly from business to business.

Employee Involvement

The Group's ability to achieve its commercial objectives and to meet the needs of its customers in a profitable and competitive manner depends on the contribution of employees throughout the Group. Employees are encouraged to develop their contribution to the business both in the context of their particular job roles and wherever they work. In many areas ongoing programmes, focusing on quality and customer service, provide an opportunity for all employees to be involved in making improvements. Financial participation is further encouraged through a variety of share schemes which

Employee Involvement continued

provide employees with a direct stake in the growth and prosperity of the business. In addition, the Group communicates with its employees about its activities through a variety of channels.

The Group has created two European wide employee involvement processes to develop appropriate procedures and approaches to the issue of European employee communications, building on existing local communications and consultative processes.

The Group, through its subsidiaries, has entered into numerous collective bargaining agreements and the Group's management has no reason to believe that the Group would not be able to renegotiate any such agreements on satisfactory terms. The Group believes that its relations with its employees are generally good.

Equal Opportunities

The Group is committed to providing equal opportunities to individuals within its businesses worldwide in all aspects of employment. In support of this, policies, procedures and practices focus on ability and do not discriminate on any other basis. The Group ensures that these global policies achieve local ownership by the business units through sensitivity to the culture and society of each country in which the Group operates.

Disabled Persons

The Group employs a number of people who are disabled, not all of whom are formally registered disabled persons in UK terms. If any employee becomes disabled it is standard practice, in all but the most extreme circumstances, to offer an alternative job and provide retraining where necessary.

Pensions

Companies across the Group reflect local good practice in the provisions which they make for retirement. In the UK, half of the trustees administering the Company scheme are elected by the employee representatives on the Pensions Consultative Committee who are drawn from the UK businesses. The other trustees are appointed by the Company.

Further details on Group pension arrangements are provided in Note 18 to the Financial Statements.

Properties

As of 2 January 1999 the Group had a total of 89 manufacturing plants and bottling facilities, of which 12 were located in the UK, 15 in the Americas, 21 in Continental Europe, 19 in Australia and the Pacific Rim and 22 in other countries.

Of these, 57 are engaged in the manufacture of confectionery products and 32 are engaged in the manufacture and bottling of beverage products. The proposed sale of 2 beverage concentrate plants was announced in December 1998. The Group also announced, at that time, its intention to sell a further 20 beverage bottling plants.

All of the above facilities are owned by the Group, except for 1 facility in the UK, 1 in the Americas, 4 in Continental Europe, 5 in Australia and the Pacific Rim and 8 in other countries, which are leased.

All the facilities are considered to be in good condition, adequate for their purpose and suitably utilised according to the individual nature and requirements of the relevant operations. The Group has a continuing programme of improvements and replacements to property when considered appropriate, to meet the needs of the individual operations.

Research and Development

The Group engages in research and development activities relating to the introduction by the Group of new products and production processes and to the improvement of existing products and processes.

The two business streams are supported by high quality technical facilities for scientific research led by establishments based at Reading, UK, and Trumbull, Connecticut, US. Reading Scientific Services Ltd provides research and analytical services to the Group and external customers. The Cadbury Schweppes Global Beverages Technology Center at Trumbull supports the Beverages stream worldwide. In addition, a number of smaller research establishments around the world support the Group's operations.

The Group's research activities include the assessment of safety and toxicology, the refinement of flavour and texture technology, the development of packaging techniques and the application of micro-electronics to process control.

The Group spent £26 million in 1998, £22 million in 1997 and £21 million in 1996 on research and development.

Environment

The Cadbury Schweppes Environmental Programme occupies a key position in the Group's business agenda. Environmental objectives were established in 1992 and, in 1993, the Board of Directors adopted a Corporate Environmental Policy. Subsequently, the Group has developed a Guide to Environmental Management to address the Group's policies and key commitments and to provide a framework for implementing these throughout the Group.

The Group continues to invest in systems, processes and facilities so that performance is measured and continually improved against commitments in the key areas of air emissions; water, energy and materials conservation; wastewater treatment; solid waste and packaging management; and soil and groundwater protection. Environmental responsibility remains integral to the way the Group runs its business, and the strength of the programme is measured in the delivery of detailed performance targets in every part of the Group's operations.

Customers and Suppliers

No single customer or supplier accounts for more than 10% of either the Group's net sales or purchases, respectively. Neither of the Group's product streams has a single customer or supplier or a single group of customers or suppliers, which account for more than 10% of either of the streams' net sales or purchases, respectively.

Raw Materials

One of the principal raw materials used by the Group in its soft drinks and confectionery products is sugar. The Group purchases most of its sugar at prices essentially set by the European Union or maintained by various national governments through quotas and duties, with only a relatively small proportion purchased at fluctuating world prices. The Group has not experienced and does not anticipate difficulty in obtaining adequate supplies of sugar for its operations with sourcing available from numerous refiners. Another raw material used is aspartame, a sweetening agent used in diet soft drinks products. Aspartame is available from several sources.

Raw Materials continued

The most significant raw material used in the production of the Group's chocolate confectionery products is cocoa beans. These are imported from West Africa and the Far East. West Africa accounts for over 60% of the world production. The Group attempts to minimise the effect of cocoa bean price fluctuation by forward purchasing of quantities of cocoa beans and cocoa butter in order to meet its planned future requirements.

Other raw materials purchased in substantial quantities by the Group for its confectionery business which may fluctuate in price include milk and various types of nuts and fruit. In the case of milk, alternative sources are available. While California is the preferred source for certain nuts and fruit, alternative supplies are available from South Africa, Australia and Italy.

Government Regulations

The production, distribution and sale of many of the Group's products are subject to governmental regulation regarding the production, sale, safety, labelling and ingredients of such products in the various countries and governmental regions in which the Group competes. In addition, the manufacture of many of the Group's products in various markets is subject to governmental regulation relating to the discharge of materials into the environment, and also to the reclamation and re-cycling of packaging waste. The packaging of the Group's beverage products in certain markets is subject to governmental regulation encouraging returnable containers. The Group's operations are also subject to the risks and uncertainties attendant to doing business in numerous countries. A number of countries in which these operations are conducted maintain controls on the repatriation of earnings and capital and restrict the means available to the Group for hedging potential currency fluctuation risks. However, the operations which are affected by such controls are not material to the Group as a whole, and such controls have not significantly affected the international operations of the Group. Certain of the regulatory authorities under whose purview the Group operates may have enforcement powers which could subject the Group to such actions as product recalls, seizure of products and other sanctions. However, the Group believes that it has taken and continues to take measures to comply with applicable laws and governmental regulations in the jurisdictions within which it operates so that the risk of such sanctions does not represent a material threat to the Group.

3

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Performance Measurement

In 1998, the Group again performed well against each of its three key medium term financial performance targets under the Managing for Value ("MFV") agenda.

Shareowner Return

To meet the shareowner value target, the average value of a shareowner's investment in the Group in the year 2000 should be double its level in 1996, assuming the shares are held throughout that period and all dividends re-invested. This measure is known as Total Shareholder Return ("TSR") and the TSR at the end of 1998 was on track to achieve this target.

Earnings Growth

Table 3·1 isolates the impact of exceptional items, disposal profits and foreign exchange effects on earnings per share ("EPS"). The result is a 6% increase in underlying EPS and an 11% increase in underlying EPS at constant exchange rates.

Table 3·1

	1998 pence	1997 pence
Earnings per share		
Basic EPS	**35.0**	68.7
Adjust for:		
Exceptional items	**6.7**	–
Profit on sale of investments and subsidiaries, net of tax and minorities	**(2.3)**	(31.5)
Underlying EPS	**39.4**	37.2

Free Cash Flow

Free cash flow remained constant at £157 million in 1998 and exceeded the performance target (Table 3·2). Free cash flow is the amount of cash generated by the business after meeting all its obligations for interest, tax and dividends and after all capital investment.

Table 3·2

	1998 £m	1997 £m	1996 £m
Free Cash Flow			
Cash flow from operating activities and associates	**698**	733	869
Net capital expenditure	**(143)**	(204)	(256)
Taxation, returns on investments and servicing of finance	**(212)**	(205)	(327)
Ordinary dividends	**(186)**	(167)	(149)
	157	157	137

1998 Compared to 1997 – Overview

An overview of the Group's results is given in Table 3·3, which highlights the effects of acquisitions and disposals and exchange rates to show sales and trading profit growth of 3% and 7% respectively from continuing operations. Modest volume progress resulted principally from a focus on higher margin products as a result of the Value Based Management programme (and thus lower volumes of low margin products) in addition to difficult economic conditions in the emerging markets. However, good performances from the major business units in the Group resulting from the improvement in sales mix and continuing cost reductions have resulted in strong trading profit growth.

Table 3·3

	1997 £m	Exchange effects £m	Acquisitions/ disposals £m	Organic growth £m	**1998 £m**
Analysis of Results					
Beverages – continuing operations	1,953	(98)	(17)	99	**1,937**
Confectionery	2,220	(123)	60	12	**2,169**
Sales – continuing operations	4,173	(221)	43	111	**4,106**
Change %		(5)	+1	+3	**(2)**
Beverages	342	(14)	(1)	35	**362**
Confectionery	282	(18)	4	12	**280**
Trading profit*	624	(32)	3	47	**642**
Discontinued operations	4	–	(4)	–	**–**
Exceptional items	–	–	–	(68)	**(68)**
Major restructuring costs	(20)	–	–	6	**(14)**
Group operating profit	608	(32)	(1)	(15)	**560**
UK	128	–	(1)	(5)	**122**
Europe	59	(3)	4	1	**61**
Americas	318	(9)	–	35	**344**
Pacific Rim	78	(14)	–	15	**79**
Africa and Others	41	(6)	–	1	**36**
Trading profit*	624	(32)	3	47	**642**
Change %		(5)	+1	+7	**+3**

*From continuing operations and before exceptional items and major restructuring costs

Note that in Table 3·3 above and Table 3·9 on page 42, the Group's non-beverage and non-confectionery businesses in Africa, which produce mainly cocoa-related food products, have been allocated between the two product streams based on management accountability. Similarly, the Cottee's business in Australia, involving jams and fruit snacks, is incorporated into the Beverages stream as is the Mott's apple sauce business in North America.

Exchange Rate Effects

The Group's operations are conducted in many countries, and the Group receives revenues and incurs expenses in more than twenty five currencies. Although the Group is exposed to the effects of exchange rate fluctuations, currency hedging practices and local or regional product sourcing arrangements are employed to reduce exposure to potential adverse commercial consequences from exchange rate fluctuations.

However, as in previous years, the Group's reported results have been affected by changes in the exchange rates used to translate the results of foreign subsidiaries. In 1998 compared with 1997, the average value of most currencies declined against sterling, the most significant to the Group being declines of 18% for the Australian dollar, 21% for the South African rand and 8% for the Canadian dollar. As a consequence of this, as Table 3·3 illustrates, the reported sales and trading profit from the Group's continuing operations were lower, by £221 million (5%) and £32 million (5%) respectively, than would have been the case had the exchange rates prevailing during 1997 applied.

General price inflation in countries where the Group has its most significant operations remained at a moderate level and in general terms was within a range between 0% and 4%. However, during 1998 inflation was higher than this range in certain developing countries such as South Africa, India and Mexico (9% – 16%) and in those countries which were significantly affected by the Russian and Asian economic crises (both Russia and Indonesia experienced inflation levels of approximately 80%). The impact of this inflation was generally not significant to the Group results, with the exception of Russia, which is discussed more fully in the Confectionery Stream review on pages 38 to 41.

Acquisitions and Disposals

The impact on 1998 sales and trading profit of acquisitions and disposals was not significant. Acquisitions affecting trading profit included the December 1997 acquisition of La Pie Qui Chante, a French sugar confectionery business, and the 1997 sale of Sodastream Ltd., a UK based beverages business. The results of the Group's former subsidiary, Coca-Cola & Schweppes Beverages Ltd, a UK bottling operation which was sold in February 1997 are shown as discontinued operations.

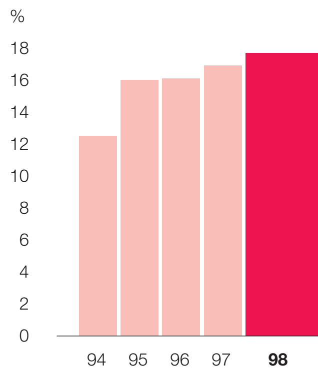
As discussed in more detail on page 25, the most significant acquisition during the year was the Group's £77 million investment for a 39.3% interest in The American Bottling Company ("ABC"), a soft drinks bottling company in the US. The operating profits from this investment are shown within the "Share of operating profit in associates" line in the Group Profit and Loss Account.

The profit on sale of subsidiaries and investments in 1998 arose principally on the partial disposal of the Group's investment in ITNET plc and a change in the percentage share of the Group's interest in Amalgamated Beverage Industries Ltd ("ABI"), a bottling associate in South Africa.

Major Restructuring Costs

As Table 3·3 shows, the 1998 results include £14 million in expenditure on major restructuring activities. These restructuring costs were incurred in the Confectionery stream and included rationalisation in the UK confectionery operations, consolidation of aspects of the French confectionery businesses and a plant closure in South Africa. The Group's share of operating profit in associates also includes £5 million representing the Group's share of restructuring costs from ABC, as this company rationalised manufacturing facilities to improve efficiency.

Table 3·4
Marketing Expenditure as a percentage of Sales*



*From continuing operations

Exceptional Items

Exceptional items represent fixed asset impairments and working capital losses resulting from the economic crisis which occurred in Russia during the second half of 1998. As a result of this crisis, an impairment review in accordance with Financial Reporting Standard 11 was performed and a write down has been made to reflect the estimated net realisable value of the Group's fixed assets in Russia. Additionally, the economic situation resulted in certain debtors and stocks becoming irrecoverable, primarily in the Group's Russian and other European subsidiaries. These working capital losses have also been included in the total Exceptional items amount in the Group Profit and Loss Account.

Marketing and Capital Expenditure

Marketing expenditure in 1998 was £726 million; at constant exchange rates this is a 6% increase over marketing expenditure for continuing operations in 1997 and represents a marketing to sales ratio of 17.7% (1997: 16.9%). This expenditure reflects the Group's commitment to brand investment.

In 1998, capital expenditure was £162 million and included projects such as construction of a Mott's bottling plant in Tecate, Mexico and the ongoing worldwide implementation of an integrated enterprise computer system.

1998 Compared to 1997 – Beverages Stream

Table 3·5

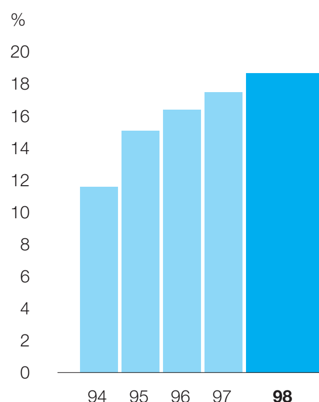
	1998 £m	1997 £m	% Change As reported	% Change At constant exchange rates
Sales from continuing operations	**1,937**	1,953	–1	+4
Trading profit from continuing operations*	**362**	342	+6	+10

Sales / Trading profit

Continuing operations	Sales 1998 £m	Sales 1997 £m	Trading profit 1998 £m	Trading profit 1997 £m
UK	**55**	67	**(12)**	(4)
Europe	**346**	361	**38**	36
Americas	**1,250**	1,211	**301**	277
Pacific Rim	**201**	222	**21**	19
Africa and Others	**85**	92	**14**	14

*Excluding major restructuring costs

Table 3·6
Trading margin from continuing operations*
Beverages Stream



*Excluding major restructuring costs

1998 sales from continuing operations of £1,937 million were £16 million lower than in 1997. Continued strength of sterling against the US dollar and European currencies in conjunction with significant currency devaluations in key Group markets such as Australia and South Africa reduced Group sales by £98 million or 5%. Excluding disposals and at constant exchange rates, sales increased by £99 million or 5%, with branded volumes increasing by 1% and price increases or changes in sales mix contributing the remainder.

Trading profit from continuing operations in 1998 increased by £20 million to £362 million despite the adverse impact of currency movements which reduced trading profit by £14 million, or 4% from 1997. Acquisitions and disposals had a £1 million unfavourable impact on trading profit. Internal growth generated an increase in trading profits of £35 million or 10%.

United Kingdom

In the UK, sales from continuing operations, which primarily represented sales of concentrate to third parties, decreased from £67 million to £55 million, a result of £15 million of sales lost from the disposal of Sodastream. Core branded bottler volumes were 6% ahead of last year, driven by Dr Pepper sales which more than doubled. Strong growth in trading profit from concentrate sales was offset by higher stream costs, primarily associated with the Schweppes global marketing campaign and initiatives to implement the Managing for Value programme. Reported losses from the UK beverages business thus rose from £4 million to £12 million.

Europe

Sales in Europe were £15 million or 4% lower than the previous year. Exchange rate movements were responsible for £10 million or 3% of the decrease in sales. Branded volumes were flat, impacted by the poor summer weather across the region, the economic slowdown in Eastern Europe and a deliberate focus on higher margin volumes at the expense of lower margin volumes. In Spain, branded volumes fell 5% mainly in the lemon and cola ranges as part of the Value Based Management ("VBM") business focus on the higher margin ranges such as glass formats for the hotel and restaurant trade. In France, branded volumes grew modestly in a declining market, with performance driven by Schweppes fruit carbonates and Oasis.

Trading profit increased by £2 million to £38 million. At constant exchange rates, profit also grew by £2 million or 6%. This performance in local currency profitability reflects the VBM initiatives in Spain and Portugal and the benefits of better distribution and production efficiencies in France.

Americas

Sales in the Americas region increased by £39 million to £1,250 million in 1998. Excluding the impact of exchange rates, sales rose by £76 million or 6%.

At Dr Pepper/Seven Up, Inc ("DPSU"), Dr Pepper volume growth continued to outpace the US market with its share reaching an all time record (6.1%). The brand performed well in both bottle and can and in fountain and foodservice. The flavour brands, A&W Root Beer and Sunkist, grew volumes by 2% and 9% respectively. A volume decline for 7 UP reflected a lack of focus in the Pepsi and independent bottling systems as a whole.

Sales and volume increases at Mott's were driven by continued success in single serve apple sauce, notably Fruitsations, and Clamato tomato based juices. Mott's has focused attention on brands and products which earn the highest economic profit.

The recovery in the Mexican soft drinks business in 1997 gathered pace in 1998. Branded bottler volumes rose 13% primarily due to the launch of Aguafiel water late in 1997 and increased placements of cooler equipment.

Trading profit for the Americas region increased by £24 million to £301 million, a rise of 9% on 1997, representing 83% of the stream total trading profit, a slight increase on the previous year. Currency movements had a £7 million or 3% negative effect. Trading profit growth at constant exchange rates was £31 million or 11%. Within the region, DPSU had another good year, with profits benefiting from the combination of higher volumes and lower costs. The progress at Mott's remained strong despite increased price competition in apple juice and problems with aseptic production. The Mexican business benefited from higher volumes, a more profitable product mix and lower costs.

Pacific Rim

Sales in the region were adversely impacted by the significant devaluation (18%) of the Australian currency against sterling. Sales at average exchange rates for 1998 fell by £21 million. Excluding the impact of currency movements, sales rose by £14 million or 6%. Volumes were up 7% in the region, benefiting from the exceptionally hot summer weather in Australia, the region's principal market. In Australia, the non-cola market outgrew the cola market. The Group's core carbonated soft drink brands (Schweppes, Sunkist and Solo) grew volumes by 8% and increased their share of the market. At Cottee's, the Australian foods business, cordial volumes rose strongly during the year and the business benefited from the successful launch of Cadbury branded topping.

At constant exchange rates, trading profit rose by £5 million or 26% to £21 million reflecting the combination of higher volumes and better sales mix.

Africa and Others

Sales in the Africa and Others region decreased by £7 million or 8%. Currency movements reduced sales by £17 million. The average exchange rate for the South African rand against sterling in 1998 was 9.17 as against 7.58 for 1997, a 21% devaluation during the year. At constant exchange rates, sales rose by £10 million or 11%. Branded beverage volumes at Bromor were up by 10% on 1997 driven by the relaunch of Oros and Brookes cordials and strong promotion behind Energade. Volumes of the Group's carbonated soft drinks brands were affected by more difficult market conditions. Strong volume growth was seen in Nigeria (+400%).

Trading profit was £14 million, unchanged from 1997. Exchange rate movements reduced trading profit by £2 million. The 14% or £2 million increase in trading profit at constant exchange rates was primarily accounted for by the South African business.

1998 Compared to 1997 – Confectionery Stream

Table 3·7

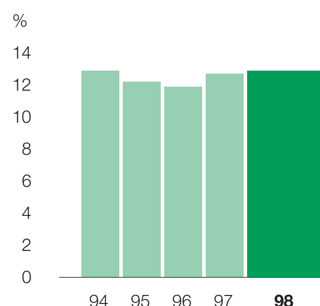
	1998 £m	1997 £m	% Change As reported	% Change At constant exchange rates
Sales	**2,169**	2,220	–2	+3
Trading profit*	**280**	282	–1	+6

	Sales 1998 £m	Sales 1997 £m	Trading profit 1998 £m	Trading profit 1997 £m
UK	**948**	955	**134**	132
Europe	**453**	427	**23**	23
Americas	**265**	267	**43**	41
Pacific Rim	**304**	351	**58**	59
Africa and Others	**199**	220	**22**	27

Sales / Trading profit

*Excluding major restructuring costs

Table 3·8
Trading margin*
Confectionery Stream



*Excluding major restructuring costs

1998 sales of £2,169 million were £51 million or 2% lower than last year. Movements in exchange rates reduced sales by £123 million or 6%. Underlying sales at constant exchange rates rose by £12 million or 1%. Acquisitions, notably La Pie Qui Chante in France, contributed a further £60 million or 3% to sales. For reasons explained below, branded volumes were flat and the sales gain was due to improved product mix and price increases.

The Russian economic crisis had a material impact on the business not only in that country but also in Germany and France, and to a lesser extent in Spain and Poland. The reduced stream volume reflects the Russian crisis, the focus on higher margin products at the expense of low margin products as a result of the VBM programme, and a slowdown in the world economy in the second half.

Trading profit in 1998 decreased by £2 million, a 1% fall on 1997. Profits at constant exchange rates grew by £12 million or 4%. Acquisitions contributed a further £4 million. The businesses in the developed markets of the UK, Ireland, Australia, New Zealand and Canada performed strongly. Exchange rate movements caused a reversal of £18 million or 6%. The Russian economic collapse is estimated by the Group to have reduced the Confectionery stream's trading profit by £13 million. Margins for the stream as a whole increased from 12.7% to 12.9%.

United Kingdom

Sales in 1998 in the UK decreased by £7 million to £948 million, reflecting the implementation of the VBM programme at Trebor Bassett and the focusing of Cadbury Ltd on higher margin products. Trebor Bassett volumes were down, although core brand volumes (including mints, gums, jellies and liquorice assortments) were up by 6%. This is consistent with the new business strategy of reducing complexity and focusing on high margin, branded lines. Strong growth in Bassett's Jelly Babies, Butterkist popcorn and Trebor Softfruits helped trading profit to increase 12%.

Volume performance at Cadbury Ltd was slightly below the market, reflecting a deliberate policy of only pursuing profitable sales. The core lines and other higher margin product categories performed well. Sales of Easter products, where Cadbury Ltd is the clear market leader, rose by 12%. The Cadbury's Dairy Milk range benefited from its relaunch in

the second half with post launch volumes rising by 8% and the Cadburyland children's range volumes also grew. Marble, sourced from Argentina, was voted "New Product of the Year" by "The Grocer" Magazine and other successful launches included Wispamint, Nuts about Caramel and the Snack biscuit countlines relaunch. Trading profit at Cadbury Ltd benefited from a better sales mix and investments in new technology.

The licensing business in the UK made further good progress in 1998, with a number of new introductions across the range of shelf stable and frozen desserts, cakes, ice cream, biscuits and beverages.

An increase in central and stream overhead costs, primarily related to initiatives to implement MFV, offset much of the excellent profits progress made by both Cadbury Ltd and Trebor Bassett.

Europe

Sales in Europe rose by £26 million or 6% to £453 million. Exchange rate movements had a more limited impact than in 1997. The first time contribution from the newly acquired La Pie Qui Chante was offset by the impact of the Russian economic crisis.

Following a rapid rise in the volume of export business to Russia, the Group invested £75 million in building a state-of-the-art confectionery factory outside St Petersburg in 1996. Up to August 1998, Cadbury brand sales in Russia were developing to plan. Other Group companies, Piasten in Germany, Cadbury France and to a lesser extent, Dulciora in Spain, continued to benefit from a healthy export business to the region. In August, the Russian economic collapse and rouble devaluation severely dislocated trading in Russia and the other CIS states.

Overall, trading profit from the European confectionery operations was constant at £23 million. The direct impact of the Russian crisis on European confectionery profits was estimated by the Group as £13 million in 1998. Trading losses in Russia were unchanged from 1997 as costs were contained. However, at Piasten in Germany the cessation of exports of moulded and boxed chocolates to Russia, where it had built a strong market position, reduced profits markedly. In Poland, volumes for the year were lower and profit margins were eroded by both a planned increase in marketing support and by more competitive market conditions as a result of the Russian economic crisis. Nevertheless, the Picnic and Eclairs brands remain strongly positioned in the market and the launch of the Snack brand in the second half was highly successful.

Cadbury Ireland increased constant exchange rate trading profit by 18%, following an excellent performance and record volumes in its home market. The business achieved good growth in all market categories. In a subdued market Cadbury France profited through focus on key product lines such as 1848 and a successful Christmas sales period. La Pie Qui Chante, acquired at the end of 1997, giving the Group joint market leadership in sugar confectionery in France, performed ahead of expectations. Targeted functions in the company were quickly and successfully integrated with the existing French business. Profits in Spain were well ahead with a strong performance from chocolate countlines, primarily Huesitos and Tokke. The Cadbury branded range continued to make good progress.

Americas

Sales in the Americas region decreased by £2 million to £265 million. Excluding the impact of exchange rate movements, sales increased by £11 million or 4%, all of which was organic growth. Comparing the average exchange rates against sterling in 1998 with average rates in 1997, the Canadian dollar devalued by 8%.

Americas continued

In Canada, Trebor Allan branded volume rose by 5%, with gains on major brands such as Sour Patch Kids and Fuzzy Peach. The chocolate business of Cadbury Chocolate Canada experienced a highly competitive market but successfully launched new lines and relaunched Cadbury's Dairy Milk. Both businesses benefited from the synergy of working together and achieved double digit profit growth. In the US, Jaret, the Group's US sugar confectionery sales operation, benefited from the addition of three brands to its range, including Fuzzy Peach, and strong growth in existing brands such as Sour Patch Kids and Swedish Fish.

Domestic sugar volumes at Stani in Argentina rose strongly, supported by successful innovation in the Beldent (chewing gum) and Bazooka (bubble gum) ranges. The business also supplied Marble to the UK, contributing to a constant exchange rate trading profit increase of 18%.

The Cadbury and Peter Paul licensed trade with Hershey was well ahead of 1997, with particularly strong sales of Cadbury Creme Egg, sourced from the UK.

Trading profit for the region rose from £41 million to £43 million, an increase of 5%. Currency movements reduced profit by £2 million or 5%.

Pacific Rim

Pacific Rim sales were £47 million or 13% lower than 1997. Adverse currency movements reduced sales by £63 million or 18%; the constant exchange rates growth in sales was £16 million or 5%. Industry volumes in the key markets of Australia and New Zealand were lower than 1997, reduced by the unusually hot summer weather in the first half of the year. At Cadbury Australia share of the chocolate market increased. This was achieved by a successful sales and marketing programme which included launches such as Cadbury Storyblock, a filled block with a book insert, and Cadbury Favourites, an assortment range of mini-Cadbury products. Milk Tray was also successfully relaunched and Yowie, launched in 1997, was voted globally the best new supermarket product in all food categories and awarded the SIAL D'Or prize in Paris. The Yowie brand is continually being refreshed and consumer interest was sustained in 1998. In New Zealand, market share in chocolate confectionery grew in a difficult market helped by the launch of Favourites and the "All Black" rugby promotion and sponsorship. Milk Tray and Continental assortments were both relaunched and gained strong consumer support. Branded volumes in China grew by 95% with the continuing success of Cadbury's Eclairs and the expansion of the business into eight new cities. Operating losses were substantially reduced. In the rest of the region, the business units in Malaysia, Indonesia, Hong Kong and Singapore were all affected by the Asian economic difficulties, but region profits were broadly similar to 1997.

Trading profit in 1998 was £58 million, £1 million or 2% lower than 1997. Exchange rate movements reduced profit by £11 million. Constant exchange rate profit growth was 17%. The Australian and New Zealand businesses each saw strong increases in trading profit.

Africa and Others

Sales in the Africa and Others region in 1998 fell by £21 million or 10% to £199 million. Adverse currency movements reduced sales by £30 million or 14%, with the average rate for the South African rand against sterling in 1998 devaluing by 21%. Constant exchange rate sales rose by £9 million.

In South Africa, a deteriorating economic climate led to a significant contraction of the confectionery market. Cadbury volumes were lower with reduced disposable incomes lowering demand in some key market sectors. In addition, the closure of a factory at year end led to some disruption of supply. TimeOut was successfully launched and contributed to profits edging ahead of 1997. In India, a focus on the core chocolate products helped generate an 8% increase in branded volumes. The breadth and depth of retail distribution was improved and notable successes were the “Cadbury in every pocket” campaign and the launch of Picnic. Sales in Egypt were severely affected by the complete cessation of exports to Algeria and problems in other key markets such as Saudi Arabia. Domestic Egyptian volumes were also under pressure due to record summer temperatures, and more intense competition. Cadbury Ghana volumes grew by 20% through distribution initiatives and capacity expansion easing production bottle-necks.

Trading profit in the Africa and Others region fell by £5 million to £22 million. Exchange rate movements accounted for £4 million of this reduction with the constant exchange rate trading profit showing a £1 million or 4% fall on the previous year.

1997 Compared to 1996 – Overview

An overview of the Group's results for 1997 and 1996 is given in Table 3·9 which highlights the effects of acquisitions and disposals, together with a strengthening of sterling, to show sales and trading profit growth of 6% and 10% respectively from continuing operations during those periods. In a generally low inflation environment, this performance reflected growth in sales volumes, an improvement in sales mix and good progress by many businesses in reducing their cost base.

Table 3·9

	1996 £m	Exchange effects £m	Acquisitions/ disposals £m	Organic growth £m	1997 £m
Analysis of Results					
Beverages – continuing operations	1,954	(157)	(5)	161	1,953
Confectionery	2,240	(146)	53	73	2,220
Sales – continuing operations	4,194	(303)	48	234	4,173
Change %		–7%	+1%	+6%	–1%
Beverages	321	(20)	–	41	342
Confectionery	267	(15)	11	19	282
Trading profit*	588	(35)	11	60	624
Discontinued operations	124	–	(120)	–	4
Major restructuring costs	(41)	–	–	21	(20)
Group Operating profit	671	(35)	(109)	81	608
UK	107	–	1	20	128
Europe	55	(11)	–	15	59
Americas	304	(14)	6	22	318
Pacific Rim	87	(7)	–	(2)	78
Africa and Others	35	(3)	4	5	41
Trading profit*	588	(35)	11	60	624
Change %		–6%	+2%	+10%	+6%

*From continuing operations before major restructuring costs

Exchange Rate Effects

The Group's reported results for 1997 were affected significantly by changes in the exchange rates used to translate the results of its foreign subsidiaries. In 1997 compared with 1996, the average value of most currencies declined against sterling, for example by 4% in the case of the US dollar, 11% for the Australian dollar and 19% for the French franc. As a consequence of this, as Table 3·9 illustrates, the reported sales and trading profit from the Group's continuing operations were lower, by £303 million (7%) and £35 million (6%) respectively, than would have been the case had the exchange rates prevailing during 1996 applied.

Acquisitions and Disposals

A summary of acquisitions and disposals affecting the 1997 results is as follows:

- In February 1997, the disposal of the Group's 51% share in Coca-Cola & Schweppes Beverages Ltd ("CCSB") for £623 million, earning a pre-tax profit on disposal of £442 million; results of CCSB have been segregated as discontinued operations in the profit and loss account.

- Confectionery acquisitions including Jaret International Inc., (US) in January; Bim Bim, (Egypt) in February; and La Pie Qui Chante, (France) in December.
- Shareholdings in two confectionery subsidiaries, Piasten (Germany) and Cadbury Stani (Argentina), were increased during the year.
- Disposal of non-strategic operations, including the sale of Sodastream Ltd, a UK based manufacturer of equipment for carbonated soft drinks made in the home.

Major Restructuring Costs
As Table 3·9 shows, the 1997 results benefited from a £21 million reduction in the expenditure on major restructuring activities. The £20 million of restructuring costs which were incurred in 1997 resulted mainly from rationalisation of operations in the Americas region of the Beverages stream and from restructuring programmes in the British Isles confectionery operations.

Marketing and Capital Expenditure
Marketing expenditure in continuing operations was £706 million in 1997 and £674 million in 1996. In 1997, capital expenditure was £209 million for various projects to expand capacity in developing markets and to improve operational efficiency in developed markets. In 1996, capital expenditure of £215 million included the Group's investment in a chocolate factory in Russia.

1997 Compared to 1996 – Beverages Stream

Continuing operations
1997 sales from continuing operations of £1,953 million were £1 million lower than in 1996. Strengthening of the pound sterling against most other currencies caused a £157 million, or 8%, decrease in sales from 1996. Disposals completed in 1997 reduced sales by £5 million. Sales increased by £161 million, or 8%, resulting from organic growth, with branded volumes increasing by 4%, and price increases or changes in sales mix contributing 4%.

Trading profit from continuing operations in 1997 increased by £21 million to £342 million, despite the impact of strong sterling which reduced trading profit by £20 million, or 6%, from 1996. Acquisitions and disposals did not have a significant impact on trading profit. Internal growth generated an increase in trading profit of £41 million, or 13%.

United Kingdom
In the UK, sales from continuing operations, which primarily represented sales of concentrate to third parties, grew from £31 million to £67 million. This included an increase in concentrate pricing resulting from the sale of CCSB and the transfer of control of marketing of the Group's brands from CCSB to the Group. The net trading loss from continuing operations decreased from £11 million to £4 million, primarily as a result of this change in concentrate pricing.

Europe
The European region experienced a £54 million sales decrease to £361 million. Weakening currencies caused a £65 million, or 16%, decrease in sales. Comparing the average exchange rates against sterling in 1997 with the average rates in 1996, the French franc devalued by 19% and the Spanish peseta by 20%. The constant exchange rates sales increase was £11 million, resulting from strong sales growth of the Schweppes and Gini brands in France and the Schweppes and Trinaranjus brands in Spain.

Europe continued
Trading profit increased by £9 million; however, this increase included a £6 million decrease due to the weakening of currencies against sterling. At constant exchange rates trading profit increased by £15 million. Increased profits and margins in France reflected the full year benefits of the manufacturing and distribution investment with San Benedetto.

Americas
Sales in the Americas region increased by £17 million to £1,211 million in 1997. Excluding the impact of exchange rate movements (a reduction of £60 million), sales increased by £77 million, or 6%. Comparing the average exchange rates against sterling in 1997 with the average rates in 1996, the US dollar devalued by 4%, the Canadian dollar by 6% and the Mexican peso by 9%.

Dr Pepper brand volumes grew at nearly double the market rate in the US driven by the new "This is the taste" marketing campaign, the new proprietary "angle" bottle and by securing new locations at leading fountain accounts. The programme to revitalise 7 UP continued with the launch of the "splash" bottle.

Sales increases were also achieved by Mott's as all products benefited from new trademark graphics and promotions, particularly Fruitsations (volumes up 78%) and Clamato. The launch of Mott's apple juice and Mott's In-A-Minute shelf stable concentrated juice in Canada also impacted sales favourably.

The Mexican soft drinks industry showed signs of recovery after declining for several years and the Group expanded distribution for its new Aguafiel still mineral water. Product launches in other Central and South American countries also resulted in sales increases in that region.

Trading profit increased by £6 million to £277 million, representing 81% of the stream's total trading profit. Currency movements adversely impacted trading profit by £12 million. Constant exchange rate trading profit increased by £18 million, mainly due to the growth in Dr Pepper and other key brands such as Schweppes, A&W, Canada Dry and Mott's. Mott's benefited from investment in packaging technology, and volume increases in Central and South America also contributed to the higher profit. In Mexico, savings in ingredients and packaging materials costs contributed to improved results.

Pacific Rim
In the Pacific Rim, sales decreased by £6 million, or 3%, to £222 million. Currency movements caused a £22 million decrease in sales, with the average exchange rate for the Australian dollar against sterling in 1997 devaluing by 11%. Constant exchange rate sales increased by £16 million, helped by the hot weather in the south eastern states of Australia. Schweppes mixers experienced volume increases of double that sector of the market and Dr Pepper was rolled out nationally. Cottee's sales included strong growth from cordials. Sales increases were also achieved in New Zealand, in Vietnam with Crush and in Japan with Canada Dry.

Trading profit declined by £1 million to £19 million, but increased by £1 million at constant exchange rates as increased profits in Australia (partly resulting from the hot weather) were largely offset by declines elsewhere in Asia.

Africa and Others
Sales in the Africa and Others region increased by £6 million, or 7%, to £92 million. Currency movements caused a £10 million decrease in sales, with the average exchange rate for the South African rand against sterling in 1997 devaluing by 13%. Constant exchange rate sales increased by £16 million or 19%.

Strong sales increases were achieved in South Africa for the Schweppes range and Lemon Twist and market share increased. Sales of Bromor products were affected by the difficult trading environment, although Energade volumes continued to grow and the market leading Oros cordials performed strongly. Hulley & Rice, a non-core food business, was sold during the year. Sales increased in Zambia, Zimbabwe, Egypt and Yemen, and in India volumes continued to grow as the bottler network was expanded.

Trading profit was flat, with the weakening of currencies against sterling causing trading profit to decrease by £1 million from 1996. Constant exchange rate profits were driven by strong sales growth in South Africa and other countries in the region.

Discontinued operations

The Group's 1997 sales included only one month's sales and trading profit from CCSB (which was sold in February 1997) of £47 million and £4 million, respectively.

1997 Compared to 1996 – Confectionery Stream

1997 sales of £2,220 million were £20 million lower than in 1996. Strengthening of the pound sterling against most other currencies caused a £146 million, or 7%, decrease in sales from 1996. Acquisitions completed in 1997 and 1996 added £53 million to sales. The remaining sales increase of £73 million, or 3%, resulted from organic growth. Total branded volumes increased by 4%, and price increases or changes in sales mix contributed 2%.

Trading profit in 1997 increased by £15 million to £282 million, despite the impact of strong sterling which reduced trading profit by £15 million, or 6%, from 1996. Acquisitions in 1997 and the full year effect of 1996 acquisitions contributed £11 million. Internal growth generated an increase in trading profit of £19 million, or 7%, which included the favourable impact of declining losses in greenfield investments.

United Kingdom

In the UK, sales increased by £14 million to £955 million. After a very buoyant 1996, the UK chocolate confectionery market lost ground marginally in 1997, mainly as a result of unseasonably warm weather in early spring. Chocolate volumes declined by 1%, in line with the total market. However, the Group's market share in domestic chocolate confectionery increased for the fourth year in succession, helped by a full year of sales for Cadbury's Fuse and strong Easter and Christmas sales. Cadbury's Roses was again the UK's best selling boxed chocolate assortment and the sector received a boost with the relaunch of Cadbury's Milk Tray as well as from competitive activity.

The Trebor Bassett sugar confectionery business increased volumes by 6% partly as a result of an additional five months sale of products from Craven Keiller, a sugar confectionery business acquired in 1996. A major advertising campaign helped lift Maynards Wine Gums to the number one fruit sweet brand.

In the licence business based in the UK volume increases were achieved by Manor Bakeries with Cadbury Mini Rolls and by St Ivel with Cadbury chilled desserts. Leadership was re-established by the Cadbury brands in the food beverages market. New product launches included Cadbury's Jestives by Premier Brands, a chocolate-covered digestive biscuit.

Trading profit in the UK increased by £14 million in 1997 to £132 million despite a subdued market. This was the result of reduced material prices and, to a larger extent, productivity gains in both the chocolate and sugar confectionery businesses. Operational efficiencies contributed to Cadbury Ltd's performance, including the automation of the Cadbury's Roses packing line and rationalisation of the warehouse network. The effect of a full year of trading from Craven Keiller, which was acquired in 1996, increased trading profit by £2 million.

Europe
The Europe region experienced a £37 million sales decrease to £427 million. Weakening currencies caused a £72 million, or 16%, decrease in sales. Comparing the average exchange rates against sterling in 1997 with the average rates in 1996, the French franc devalued by 19%, the Spanish peseta by 20% and the Irish punt by 10%. At constant exchange rates, sales increased by £35 million, or 8%.

Cadbury Ireland's market share continued at over 40% for total confectionery led by sales of key brands – Cadbury's Crunchie, Flake, Snack and Twirl. In Ireland, volumes increased by 3% in line with the total chocolate market. In France, volumes increased for moulded chocolate, helped by the relaunch of the premium Poulain 1848 moulded range and drinking chocolate and chocolate spread sales also increased. Volumes in Spain were affected adversely by a number of factors including hot weather and transport strikes. Domestic volumes in Germany were steady, but total volumes suffered from lower exports to Russia, although this was partially offset by expansion of export sales elsewhere, notably to Eastern Europe. In Poland, sales exceeded 10,000 tonnes for the first time and grew nearly 40% from 1996. Chocolate volumes in Russia increased nearly 65%, mainly from Cadbury's Wispa and Picnic, and also due to the introduction of a range of products tailored to traditional local tastes.

Trading profit in the region decreased by £5 million. This decrease was due to the weakening of currencies against sterling, thus constant exchange rate trading profit was flat. In France, there was a major currency cost for certain raw materials denominated in sterling, but this was managed by the business with minimal impact on profits. The volume shortfalls in Spain caused trading profit to decline. Poland and Russia continued to make progress, with the combined trading loss from these two greenfield sites declining by almost £5 million at constant exchange rates. In Germany, trading profit at constant exchange rates was maintained at 1996 levels.

Americas
Sales in the Americas region increased by £5 million to £267 million in 1997. Excluding the impact of exchange rate movements (a reduction of £13 million) and acquisitions (£16 million), sales increased by £2 million. Comparing the average exchange rates against sterling in 1997 with the average rates in 1996, the US dollar devalued by 4% and the Canadian dollar by 6%.

In Canada, Trebor Allan experienced good sales increases as gum brands continued to prove popular with consumers, including a strong performance from Swedish Fish and Sour Patch Kids, which are exported to the US through Jaret International, which was acquired in January 1997. These sales increases were offset by sales declines at Cadbury Chocolate Canada, which were caused by a high level of aggressive pricing and new product launches from major competitors. In Argentina, Cadbury Stani experienced strong sales increases for Beldent and Bazooka although the chocolate sales increase was not as strong due to the hot summer.

Trading profit increased by £8 million to £41 million. Currency movements adversely impacted trading profit by £2 million, while acquisitions added £7 million. Synergies between Trebor Allan and Cadbury Chocolate Canada, combined with factory efficiencies at Trebor Allan, helped to drive profit growth higher than sales growth.

Pacific Rim

In the Pacific Rim, sales decreased by £35 million, or 9%, to £351 million. Currency movements caused a £39 million decrease in sales, with the average exchange rate for the Australian dollar against sterling in 1997 devaluing by 11%. Pacific Rim constant exchange rate sales were only marginally ahead (£4 million) from 1996.

Australian volumes declined by 2%, held back by the extremely hot weather in the south eastern states in the first half of the year. However, an active new product programme resulted in a series of successful launches in 1997, including Cadbury Yowie, a chocolate brand which combines an educational programme about the environment with a new concept in children's confectionery. Sales in Malaysia and Indonesia declined due to economic difficulties in that region and forest fires in Indonesia; however sales in Singapore and Hong Kong were maintained. In China, volumes increased by 70% helped by an expansion of the sales force to cover 15 major regional sales centres.

Trading profit declined by £8 million to £59 million. On a constant exchange rate basis, the decline was £3 million or 4%. The impact of the hot weather in Australia and the reduced sales in Malaysia and Indonesia impacted trading profit unfavourably.

Africa and Others

Sales in the Africa and Others region increased by £33 million, or 18%, to £220 million. Currency movements caused a £22 million decrease in sales, with the average exchange rate for the South African rand against sterling in 1997 devaluing by 13%. Acquisitions also contributed £25 million to the sales increase and internal growth added £30 million.

In South Africa, a softening economy held back the chocolate market but Cadbury volumes increased, helped by the launch of Cadbury's PS, a wafer bar. Record volumes for the sugar confectionery products, Chappies bubblegum and Cadbury's Eclairs, were also achieved in South Africa. In India, volume moved ahead led by Cadbury's Eclairs and the sugar confectionery brand Googly.

Trading profit in the Africa and Others region increased by £6 million to £27 million, a 29% increase. The weakening of currencies against sterling caused trading profit to decrease by £2 million from 1996 but the 1997 acquisition of Bim Bim added £4 million. Profits were driven by strong sales growth in South Africa.

Financial Review

Accounting Policy Changes

The following Financial Reporting Standards ("FRS") have been adopted in the Group's 1998 Financial Statements:

FRS 9 Associates and Joint Ventures
FRS 10 Goodwill and Intangible Assets
FRS 11 Impairment of Fixed Assets and Goodwill
FRS 13 Derivatives and Other Financial Instruments: Disclosures
FRS 14 Earnings Per Share

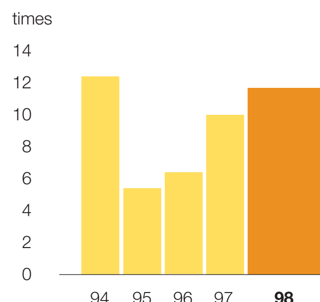
The adoption of FRS 9, 10, 11, 13 and 14 has not resulted in a restatement of prior year results, although the presentation of the Financial Statements has been amended to comply with the new standards' requirements. As allowed by FRS 10's transitional arrangements, goodwill written off to reserves prior to 1998 has not been recorded in the Balance Sheet.

FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" will be adopted for 1999 and is not expected to result in a significant restatement of prior year results.

Share of Operating Profit in Associates

In 1998 the share of operating profit in associates increased by £7 million to £38 million. This was primarily the result of income earned from ABC, the associate interest acquired during the year. Increased profits from Camelot and ABI also contributed. In 1997 the share of operating profit in associates of £31 million was the same as 1996.

Table 3·10
Interest cover*



*Excluding Exceptional Items

Interest

In 1998 the net interest charge reduced by £7 million to £57 million, principally reflecting savings from the Group's strong free cash flow offset by cash outflows for acquisitions. As a result of the adoption of FRS 9, the net interest charge now includes the Group's share of associate interest, which has increased by £6 million from 1997 primarily as a result of the acquisition of ABC. As Table 3·10 shows, interest cover in 1998 increased to 11.7 times.

In 1997, the £46 million reduction in the net interest charge to £64 million reflected 10½ months' benefit from the CCSB sale proceeds, plus savings from the Group's free cash flow, offset by the effect of cash outlays on acquisitions and redemption of US$175 million of preference shares. Interest cover in 1997 was 10.0 times.

Taxation

The Group's effective tax rate (excluding tax on sales of subsidiaries and investments) increased to 32.2%, from 28.9% in 1997. The increase is wholly due to Exceptional items, for which no tax relief is expected to be available.

The 1997 effective tax rate decreased from 30.4% in 1996. The reduction mainly reflected the elimination of CCSB, which was taxed at an above average rate in 1996. The low rate of tax on the disposal gain (23.1%) was due to indexation relief.

Minority Interests and Preference Dividends

Profits attributable to equity and non-equity minority interests in 1998 of £41 million were £7 million higher than 1997. This was primarily the result of the minorities share of the profit on the deemed disposal of a share of the Group's interest in ABI, resulting from a rights issue by ABI which was not subscribed to by the Group. At the end of 1998, the Group acquired the minority interests in Trebor Allan in Canada, Jaret in the US and Piasten in Germany under the terms of the respective shareholder agreements. Payment of approximately £48 million for these acquisitions will be made in the first quarter of 1999.

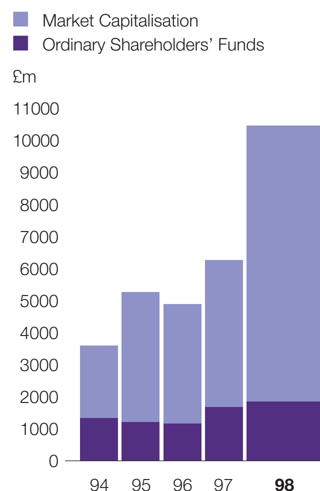
In 1997, profits attributable to equity and non-equity minority interests decreased by £33 million from 1996, which included £37 million arising from the CCSB disposal. Increased profits in South Africa and reduced losses in Russia were partially offset by decreases resulting from the acquisition from minorities by the Group of an additional 15% share of Piasten and the remaining 20% share of Cadbury Stani.

Preference dividends decreased by £4 million in 1997 from 1996 as the remaining US$ Auction Preference Shares were fully redeemed in March 1997 at the issue price of US$175 million.

Dividends

The total dividend for 1998 of 19.0p is 6% higher than in 1997 and represents underlying dividend cover of 2.1 times. Further dividend information for shareholders is given in Shareholder Information on page 136.

Table 3·11
Market Capitalisation/ Ordinary Shareholders' Funds



Capital Structure and Resources

As Table 3·11 indicates, market capitalisation increased by over £4 billion during 1998, driven by a 403p increase in the share price to 1025p at year end. Net borrowings of the Group at year end of £506 million represent 5% of total market capitalisation. The Group does not believe that such low levels of debt are efficient nor in the best interests of shareowners, as they increase the Group's weighted average cost of capital. Management is continually assessing further investment opportunities to generate returns for shareowners and, in addition, evaluating other means of achieving a more efficient capital structure, including returning cash to shareowners.

At the end of 1998, the total of short term and long term debt was £1,026 million compared with £1,417 million at the end of 1997. Cash and liquid resources decreased to £520 million at the end of 1998 compared to £768 million at the end of 1997. The Group's borrowings net of cash and short term investments declined to £506 million at the end of 1998, from £649 million at the end of 1997. 49% of the gross debt of the Group at the end of 1998 was due after one year. Gearing, defined as borrowings net of cash and short term investments expressed as a percentage of Shareholders' funds plus equity minority interests, decreased to 27% at the end of 1998 from 37% at the end of 1997.

At the end of 1998 100% of the Group's net borrowings were either at fixed rates or converted to fixed rates through the use of interest rate swaps or caps. Further information on the Group's use of derivative financial instruments is given below. Interest cover was 11.7 times in 1998 compared with 10.0 times in 1997.

Capital expenditure in 1999 is expected to be slightly higher than spend in 1998. As of 2 January 1999 the Group had capital commitments of £16 million, principally in respect of replacement and expansion of manufacturing facilities. It is anticipated that these commitments will be financed out of the Group's operational cash flow.

At 2 January 1999 the Group had undrawn committed borrowing facilities of £357 million. £298 million of this is made up of nine bilateral revolving credit facilities of US$55 million each committed by the Group's key relationship banks. They were arranged in 1997 and mature in 2004. In view of its committed facilities and cash flow from operations, the Group believes that there are sufficient funds available to meet its anticipated cash flow requirements in 1999.

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.

Cash Flows

Net cash flow from operating activities as shown in the Cash Flow Statement on page 89 was £686 million in 1998 compared with £719 million in 1997 and £858 million in 1996. Note 26 to the Financial Statements contains further detail. These cash flows include net working capital increases of £80 million in 1998, £46 million in 1997 and £27 million in 1996. Operating cash flows from discontinued operations included in the total were £12 million outflow and £176 million inflow in 1997 and 1996, respectively.

Cash purchases of tangible fixed assets were £157 million in 1998, compared with £213 million in 1997 and £262 million in 1996. The Confectionery stream accounted for 67% of the total in 1998, compared with 65% in 1997 and 61% in 1996; the Beverages stream accounted for 33% of the total in 1998 compared with 35% in 1997 and 39% in 1996. Cash purchases of tangible fixed assets by discontinued operations are included in the above amounts and totalled £1 million and £41 million in 1997 and 1996, respectively.

The cash outflow on acquisitions in 1998 was £96 million and included the investment in ABC. Disposal proceeds mainly represent the proceeds on the sale of a portion of the Group's investment in ITNET plc.

The total cash outflow on acquisitions in 1997 was £95 million, which included the acquisition of an 80% interest in Jaret and the acquisitions of Bim Bim and the assets of La Pie Qui Chante. During 1997 the Group also increased its holding in Piasten from 70% to 85% and in Cadbury Stani from 80% to 100%.

Cash outflow on acquisitions in 1996 was £135 million. Significant acquisitions were Neilson Cadbury (now Cadbury Chocolate Canada) and Craven Keiller.

The sale of the Group's 51% stake in CCSB was the main reason for the net cash inflow of £193 million before the use of liquid resources and financing in 1997, compared with a net cash inflow of £78 million in 1998 and £16 million outflow in 1996. £458 million of the proceeds of the disposal of CCSB were initially received as loan notes all of which have now been realised as cash. Excluding acquisitions and disposals and acquisition related restructuring costs, free cash flow was £157 million in both 1998 and in 1997.

The net cash outflow from the use of liquid resources and financing during 1998 was £60 million, which includes £31 million inflow from the issue of ordinary shares. In January 1998 the Group redeemed £250 million Floating Rate Notes and in December 1998 the Group redeemed US$200 million 5.875% Eurobond using available resources.

The net cash outflow from the use of liquid resources and financing during 1997 was £187 million, which includes £33 million inflow from the issue of ordinary shares. In March 1997 the Group redeemed the remaining US$ Auction Preference Shares at their original issue price of US$175 million.

The net cash inflow from the use of liquid resources and financing during 1996 was £30 million which included £20 million proceeds from the issue of ordinary shares. In January 1996 the Company issued a DM300 million Eurobond due 2001, swapped into Canadian dollars, to fund Canadian confectionery acquisitions. In February 1996 US$305 million face value of the 11.5% Senior Subordinated Discount Notes 2002 issued by DPSU (88.5% of those outstanding) were repurchased for £292 million and the balance remained outstanding until November 1997. In December 1996 the Group arranged US$70 million of financing from the European Bank for Reconstruction and Development to fund confectionery operations in Russia.

Net cash increased during 1998 by £18 million, after an increase of £6 million in 1997 and £14 million during 1996. The Group's surplus cash is predominantly invested in instruments with investment grade credit ratings and the maximum exposure to any single counterparty is strictly limited.

Risk Management

Management of the financial risks of the Group is an important aspect of ensuring that the businesses continue to create value for shareowners. Risk management is carried out through wide ranging risk reviews, a comprehensive system of internal controls, a global insurance programme and the active review by an internal audit department of financial and operational exposures of the business.

Year 2000

The Year 2000 issue, the so-called Millennium bug, arises because certain systems and equipment may not function properly after 1999. The malfunctioning may consist of showing incorrect dates, calculating data inaccurately or not operating at all. For the most part, the underlying reason is that the applicable year is only represented by its last two digits and the item concerned does not recognise “00” as “2000”.

The Group initiated its Year 2000 activities in 1996 at both central and local levels. A central Steering Group reports to the Board of Directors at regular intervals and consists of representatives from the IT, technical, finance and audit functions. Its initial focus was to raise awareness of the issues, to ensure that business units were addressing them adequately, to disseminate relevant information and to share best practices. The primary focus has now moved to monitoring progress, determining whether adequate resources to address the issues are available and facilitating the development of appropriate contingency plans.

The Group’s principal business units have established their own task forces and project teams dealing with the wide ranging aspects of the Year 2000 issue. These report on a regular basis to both their local boards of directors and the central Steering Group. Their overall activities have involved: the preparation of inventories and their assessment from both business-critical and Year 2000 compliance viewpoints; the testing of all items for such compliance; determination of whether non-compliant items could be rectified, needed to be replaced or could merely be scrapped; and contingency plans for both operating in the period around 31 December 1999 and potential failures of business-critical items. Further activities have involved dealing with suppliers, customers and licensed bottlers.

Central databases were established to cover inventories of both IT and non-IT items and the compliance status of a wide range of relevant items as reported by suppliers. All business units have access to these databases and report their own progress thereon. The databases currently cover some 80,000 individual items of equipment and systems and of these approximately 45% are considered to be IT items with the remainder non-IT, principally comprised of equipment containing some form of embedded process chip.

In 1994 the Group commenced its investment in SAP R3, an integrated enterprise wide system which will ultimately cover all key business processes. The scale of the investment involved (now almost £100 million) meant that its rollout has been phased over a number of years and one benefit of the system is that it is Year 2000 compliant. As a result, work in the IT area has been directed at equipment and the remaining systems which are generally less business critical. Because of upgrades and ongoing implementation, some testing activities will not be completed until the third quarter of 1999.

In the non-IT area, identification and assessment of embedded chips has proved a difficult process and in some instances, where the chips have no evident date display or are inaccessible, the approach has been to obtain the assurance on Year 2000 compliance from the relevant suppliers and to seek to ensure that appropriate contingency planning will be in place by the end of 1999.

The Group has a wide range of suppliers and customers throughout the world including its licensed bottlers. Business units are working with all such parties who are business-critical and this will continue for most of 1999. An area of particular concern in almost all

Year 2000 continued

countries is the state of readiness in the utilities i.e. suppliers of electricity, gas, water, etc from whom relevant information is usually difficult to obtain.

The direct costs of the Group's Year 2000 compliance programme are currently estimated at approximately £25 million of which £8 million was spent in 1998 and £2 million in prior years. These costs are essentially incremental representing external services and items being replaced primarily to achieve Year 2000 compliance. These do not include the investment in SAP referred to above, normal replacement programmes which have not otherwise been accelerated and the cost of internal staff secondments to Year 2000 project teams.

All business units are re-examining existing contingency plans in the first part of 1999 in light of the Year 2000 issue. There are risks that causes of disruption may be more widespread than anticipated and that normal backup measures may not operate satisfactorily. This process will include operational plans for the availability of key personnel and resumption of business in January 2000. Other specific contingency measures which are being implemented are the build up of strategic stocks, arrangements for alternative sources of supplies (including utilities) and identification of manual procedures to replace impacted IT systems. The Group's target is for revised contingency plans to be completed and tested by the end of the third quarter of 1999 and thus incremental costs cannot readily be estimated at this time.

While the Group has taken substantial steps to ameliorate potential Year 2000 risk, there can be no assurance that the impact of the Year 2000 issue on the Group's normal business operations, either directly or as a result of the interdependent nature of its business with third parties, will not be significant.

Euro

On 1 January 1999, 11 of the 15 countries of the European Union (EU) introduced the euro as their common currency, although for a further three year transition period the old national currencies will continue in parallel as sub-denominations of the euro. The Group operates through subsidiaries in 7 of the 11 participating countries and has distribution arrangements for its products in the rest. Of its total turnover of £4,106 million in 1998 some £750 million was generated in the euro-zone. The introduction of a common currency should have a profound impact on the general macro-economic environment, creating new risks and opportunities throughout the euro zone. It will also have a potential impact in the UK which is not yet participating in the common currency and whose future participation is uncertain.

The Group's beverages business, in particular, will be potentially affected by the impact of increased price transparency across the euro zone; this arises in connection with certain products which are sold in the same sizes and formulation in different countries at different prices. It is not a new issue but the impact of monetary union together with the increasing internationalisation of major retailers gives it increased prominence. The Beverages stream has anticipated this issue for some time and has taken action to minimise the potential adverse impact.

The Confectionery stream, which generally has country specific product offerings, is less affected by price transparency. It will, however, be affected by rounding on the consumer price of its lower value products, particularly sugar confectionery, and the need to deal with the disappearance of psychologically important pricing points when pricing is eventually expressed in euros at the retail level (from 2002).

The Group is in the advanced stages of the installation of an integrated enterprise system in most euro-zone businesses. The Group expects that it will be able to trade in euros rather than the old national currency units with those customers wanting euro invoicing before that becomes mandatory in 2002. The Group intends to convert its systems in the euro-zone to a euro base at a later stage in the transition period and does not anticipate a material cost impact from this conversion.

No material impact from the introduction of the euro is anticipated in relation to the continuity of the Group's contracts.

A steering group of executives from different Group functions regularly monitors and co-ordinates the business and operational issues arising from Economic and Monetary Union, reports to the Chief Executive's Committee and, periodically, to the Board of Directors.

The Group does not anticipate changing its reporting currency or the denomination of its share capital to the euro unless the UK decides to join the euro-zone.

Treasury Risk Management

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 mis-matches between assets and liabilities or to achieve greater certainty of future costs. These instruments are entered into in accordance with policies approved by the Board of Directors and subject to regular review and audit.

All financial instruments hedge specifically identified actual or anticipated transactions; movements in their fair value are highly negatively correlated with movements in the fair value of the transactions being hedged and the term of such instruments is not greater than the term of such transactions or any anticipated refinancing or extension of them. Such anticipated transactions are all in the normal course of business and the Group is of the opinion that it is highly probable that they will occur.

Liquidity Risk

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

Finance and Interest Rate Risk

The Group has an exposure to interest rate fluctuations on its borrowings and manages these by the use of interest rate swaps, cross currency interest rate swaps, forward rate agreements and interest rate caps. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall. Thus the policy sets minimum and maximum levels of net debt permitted to be at fixed rates in various time bands, ranging from 50% to 100% for the period up to six months, to 0% to 30% when over 5 years. Percentages refer to the annual average level of net debt and preference shares: 100% was at fixed or capped rates of interest at year end, but the year end level is typically £150 million to £200 million lower than the annual average. Assuming no changes to the borrowings or hedges, it is estimated that a rise of 1 percentage point in interest rates in all currencies in which the Group has borrowings would have affected 1998 profit before tax by less than 0.5%.

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. If the exchange rates prevailing at year end had applied throughout 1998, underlying earnings per share would have decreased by less than 1%.

The Group seeks to relate the structure of borrowings to the trading cash flows that service them and the Group's policy is to maintain broadly similar fixed charge cover ratios for each currency block. Also, the ratio for any currency block may not fall below two times in any calendar year. This is achieved by raising funds in different currencies and through the use of hedging instruments such as swaps. The Group also has transactional currency exposures arising from its international trade. The Group's policy is to take forward cover for all forecasted receipts and payments for as long ahead as the pricing structures are committed, subject to a minimum of three months cover. The Group makes use of the spot and forward foreign exchange markets to hedge its exposures.

Table 3·12 presents the change in fair value of the Group's financial instruments to hypothetical changes in market rates. The fair values are quoted market prices or, if not available, values estimated by discounting future cash flows to net present values.

The change in fair values for interest rate movements assumes an instantaneous 1% (100 basis points) decrease in interest rates of all currencies, from their levels at 2 January 1999, with all other variables remaining constant. The change in fair values for exchange rate movements assumes an instantaneous 10% weakening in sterling against all other currencies, from their levels at 2 January 1999 with all other variables remaining constant. (For further information on fair values see Note 20(e) to the Financial Statements.)

The sensitivity analysis below shows forward-looking projections of market risk assuming certain adverse market conditions occur. 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.

Table 3·12

		Fair value changes arising from	
	Fair value £m	1% decrease in interest rates favourable/ (unfavourable) £m	10% weakening in £ against other currencies favourable/ (unfavourable) £m
Cash at bank and in hand	104	–	7
Liquid resources	416	–	14
Debt	(1,014)	–	(82)
Currency and interest rate swaps	17	5	(16)
Interest rate swaps	(37)	(13)	(4)
Currency exchange contracts	3	–	54
Quarterly Income Preferred Securities	(260)	(8)	(29)

Commodity Risk
In respect of commodities the Group enters into forward purchase contracts for cocoa and other commodities in order to provide a stable cost base for marketing finished products. A significant proportion of these forward contracts are held in the form of cocoa futures, which can subsequently be converted into physical supply contracts with commercial suppliers. The use of futures contracts enables the Group to obtain the benefit of guaranteed contract performance on firm priced contracts offered by the exchanges and their clearing houses.

The sensitivity analysis in Table 3·13 below reflects the market risk to the Group of an adverse price movement of 10%, based on the net commodity position of the Group at four dates equally spaced during the year. Net commodity positions consist of the excess of futures contracts held over unpriced forward contracts for the same commodities, principally cocoa. Stocks, priced forward contracts and estimated anticipated purchases are not included in the calculations of the sensitivity analysis. A loss is defined, for the purpose of defining market risk, as the potential decrease in fair value or the opportunity cost resulting from a 10% adverse price movement. The fair values of net commodity positions were based on official settlement prices on the LIFFE and CSCE exchanges on the relevant dates.

Table 3·13

	Current Value £m	Market Risk £m
Highest long position	162	16
Lowest long position	88	9
Average long position	127	13

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 credit exposure of interest rate and foreign exchange contracts is represented by the fair value of contracts with a positive fair value at the reporting date. (See Note 20(e) to the Financial Statements.)

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The Directors

1 **Sir Dominic Cadbury**
Chairman
Appointed as Chairman in May 1993, having served as Group Chief Executive since the end of 1983. He joined the Company in 1964 and the Board in July 1974. He held many positions within the Company before becoming Managing Director of the UK Confectionery Division in 1980. He is Chairman of The Economist Newspaper Ltd and a non-executive Director of EMI Group plc. He is Deputy Chairman of the Qualifications and Curriculum Authority and President of the Food and Drink Federation. Age 58.

2 **J M Sunderland**
Group Chief Executive
Appointed Group Chief Executive in September 1996 having served as a Director since May 1993. He joined Cadbury Schweppes in 1968. After holding various directorships in Ireland, South Africa and the UK, he was a founding Director in 1987 of Coca-Cola & Schweppes Beverages Ltd. In 1989 he was appointed as Managing Director of the UK Sugar Confectionery Division, subsequently the Trebor Bassett Group. Prior to his appointment as Group Chief Executive he was, from 1993 to 1996, Managing Director, Confectionery Stream. He is also a non-executive Director of the Rank Group Plc. Age 53.

3 **D J Kappler**
Group Finance Director
Appointed as Group Finance Director in January 1995. He worked for Cadbury Ltd and the Group's Health and Hygiene Division from 1965 to 1984 and rejoined the Company in 1989, following the acquisition of the Trebor Group of which he was Finance Director. Prior to his appointment as Group Finance Director, he was Director of Corporate Finance after holding various appointments in the Confectionery Stream. He is also a non-executive Director of Camelot Group plc and CISL Ltd. Age 51.

4 **J F Brock**
Managing Director
Beverages Stream
Appointed a Director in January 1996 and as Managing Director, Beverages Stream in February 1996. He joined Cadbury Beverages North America in 1983 after 11 years with Procter & Gamble Co. He was appointed President, Cadbury Beverages International in 1990 and President, Cadbury Beverages Europe in 1992. On returning to the US in 1993 he became President, Cadbury Beverages North America overseeing the acquisition and integration of Dr Pepper/Seven-Up Companies Inc. Age 50.

5 **I D Johnston**
Managing Director
Confectionery Stream
Appointed a Director in September 1996. He joined Cadbury Schweppes in 1982, in Australia, after holding various posts with Unilever plc. In 1990 he was appointed Managing Director of Schweppes soft drinks operations in Australia and in 1991 Managing Director of the merged Schweppes Cottee's business. In 1994 he moved to the UK and became Managing Director of Cadbury Ltd. Age 51.

6 **R J Stack**
Group Human Resources Director
Appointed a Director in May 1996. He joined Cadbury Beverages in the US in 1990 as Vice President, Human Resources for the worldwide Beverages Stream, following appointments with Bristol-Myers and the American Can Company. In 1992 he moved to the UK as Group Director, Strategic Human Resources Management, retaining his Vice-Presidency in the Beverages Stream and leading executive development for the Company. Age 48.

7 **I F H Davison**
Non-Executive
Appointed a Director in October 1990. He is Chairman of The NMB Group PLC and MDIS Group Plc, and a Director of the London School of Economics and Political Science. Age 67.

8 **Dr F B Humer**
Non-Executive
Appointed a Director in June 1994. He is Chief Executive Officer, Head of the Pharmaceuticals Division and member of the Board of Directors of F Hoffmann-La Roche Ltd as well as Chairman of the Executive Committee. He is also a Director of Genentech, Inc. Previously he held senior positions within the Glaxo Group from 1981 to 1989 when he was appointed as a Director of Glaxo Holdings plc. He was Chief Operations Director of Glaxo Holdings plc from 1993 to 1994. Age 52.

9 **Sir John Whitehead**, GCMG, CVO
Non-Executive
Appointed a Director in May 1993. He served in the British Diplomatic Service from 1955 to 1992, holding posts in Tokyo (latterly as Ambassador from 1986 until 1992), Bonn, Washington and in London. He is also a Director of BPB plc and DB Group Services (UK) Ltd and an advisor to various companies including Cable & Wireless plc and PowerGen plc. Age 66.

10 **Baroness Wilcox**
Non-Executive
Appointed a Director in March 1997. She is also a non-executive Director of Carpetright plc, a member of the House of Lords and is President of the National Federation of Consumer Groups, the Institute of Trading Standards Administration and a Trustee of the Institute of Food Research. She was Chairman of the National Consumer Council from 1990 to 1995. Age 58.

11 **R S Braddock**
Non-Executive
Appointed a Director in June 1997. He is Chairman and CEO of Priceline.com, a Director of E* Trade Group Inc., Eastman Kodak Company, AmTec, Inc and Lincoln Center for the Performing Arts. He held a number of senior positions with Citicorp/Citibank, NA from 1973, culminating in his appointment as President and Chief Operating Officer in 1990 and was Chief Executive Officer of Medco Containment Services, Inc. when it was sold to Merck & Co., Inc. in 1993. Age 57.

12 **D A R Thompson**
Non-Executive
Appointed a Director in March 1998. He is Joint Group Managing Director of The Boots Company PLC, having joined that company in 1966 and held a number of finance appointments in the UK and Canada before being appointed, in 1990, as Group Finance Director and as Joint Group Managing Director in 1997. Age 56.

Group Secretary and
Chief Legal Officer
13 **M A C Clark**
Joined the Company in 1979. He served as Senior Vice-President, General Counsel and Secretary of Cadbury Schweppes Inc in the US prior to his move to the UK and his appointment as Group Secretary and Chief Legal Officer in May 1988. Age 51.

The Directors of Cadbury Schweppes plc present their Report together with the audited Financial Statements for the 52 weeks ended 2 January 1999 (the "year").

Business and Activities

Principal Activities

The description of Principal Activities is given in the Description of Business on page 22.

The operating companies principally affecting the profit or assets of the Group in the year are listed in Note 30 to the Financial Statements.

Business Review

The Letter to Shareowners from the Chairman and the Group Chief Executive and the Operating and Financial Review, on pages 3 to 19 and 31 to 55 inclusive, report on the Group's development during the year, its position at the year end and the Group's likely future development.

Acquisitions, Disposals and Changes in Investments

Acquisitions, disposals and changes in investments are detailed in the Operating and Financial Review on pages 33 to 41.

Post Balance Sheet Events

Details are set out in Note 28 to the Financial Statements.

Turnover and Profit

Turnover amounted to £4,106 million (1997: £4,220 million). Profit on ordinary activities before taxation amounted to £579 million (1997: £987 million).

Dividends

Ordinary dividends paid and recommended amount to £194 million (1997: £182 million). Details are given in the Operating and Financial Review on page 49 and in Shareholder Information on page 136.

Research and Development

Details are given in the Description of Business on page 29.

Legal Proceedings

The Company and its subsidiaries are defendants in a number of legal proceedings incidental to its operations. The Company does not expect that the outcome of such proceedings, either individually or in the aggregate, will have a material effect upon the Company's results of operations or financial position.

Share Capital

Changes

Changes in the ordinary share capital of the Company are detailed in Note 21 to the Financial Statements.

The Directors are seeking renewal of the authorities to allot relevant securities and to allot equity securities for cash other than on a pre-emptive basis. Similar resolutions have been approved by shareholders at each Annual General Meeting since 1982. As detailed in the Letter to Shareowners on page 8, the Directors are also seeking renewal of the authority given at the Annual General Meeting in 1998 for the Company to purchase its own shares, as and if appropriate. A resolution to divide each ordinary share will also be proposed.

Share and Other Interests

The interests of the Directors holding office at the year end in the share capital of the Company at 4 January 1998 (or date of appointment if later) and 2 January 1999 according to the Register maintained under Section 325 of the Companies Act 1985 are detailed in Tables 4·6 to 4·9 on pages 74 and 75.

The Company has received notification of interests in the issued ordinary share capital of the Company in accordance with Section 198 of the Companies Act 1985 (as amended).

At the date of this Report the interests detailed in Table 4·1 amounting to 3% or more in the issued ordinary share capital had been notified.

Table 4·1

	Number of ordinary shares	% of Issued ordinary share capital
Interests in Ordinary Share Capital		
Prudential Corporation plc	32 million	3.14

Other Disclosures

Employees

Details of the Group's employees, including numbers by geographical region, together with statements of policy about programmes for learning and development, employee involvement, equal opportunities, disabled persons and pensions are given in the Description of Business on page 27.

Charitable Contributions

During the year contributions within the UK to charities or equivalent organisations through corporate giving or as part of the activity of UK operating companies amounted to £1.4 million (1997: £1.3 million). The Company qualifies as a member of The Per Cent Club.

Community Involvement

The Company contributes actively to the communities in which it operates around the world through national or locally targeted programmes. These include charitable donations and may involve opportunities for commercial sponsorship, employee involvement or secondment, and help with facilities as well as direct financial support. Increasingly the Group is building partnerships with projects or organisations in local communities to ensure that contributions are as effective as possible.

Environment

Details of the Group's policy are stated in the Description of Business on page 29.

Policy on Payment to Suppliers

The Company adheres to the CBI Prompt Payers Code, whereby the policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The Company has no trade creditors, so the number of creditor days outstanding at the year end was nil.

Corporate Governance

It is the policy of the Company to manage the affairs of the Group in accordance with the appropriate standards for good corporate governance.

Until June 1998 the Company complied with all 19 specific items in the Code of Best Practice issued by the Committee on The Financial Aspects of Corporate Governance. The Principles of Good Governance and Code of Best Practice (the "Combined Code") was published in June 1998 and was incorporated into the Listing Rules of the London Stock Exchange in January this year. The Combined Code contains 14 principles of good governance and 45 code provisions which are applicable to listed companies.

The provisions of the Combined Code applicable to the Company are divided into four Parts:

Part A: Directors
Part B: Directors' Remuneration
Part C: Relations with Shareholders
Part D: Accountability and Audit

Set out below is a statement of how the Company has applied the principles set out in the four Parts of Section 1 of the Combined Code.

Part A: Directors

Board of Directors

The business of the Company is managed by the Board of Directors. The Board meets regularly and is responsible for the proper management of the Company. Special Board meetings are held when decisions are required between regular Board meetings. In 1998 the Board held twelve regular Board meetings and two special Board meetings. The Board has a formal schedule of matters reserved to it for decision, including the approval of annual and interim results, acquisitions and disposals, as well as material agreements, major capital expenditures, budgets, long range plans and senior executive appointments. Other matters are delegated to Board Committees including those detailed below.

The Board has twelve members, six Executive Directors and six Non-Executive Directors. The procedures for re-appointment to the Board are described on page 64. No individual or group of individuals dominates the Board's decision making. The Directors have wide ranging experience and all have occupied or currently occupy senior positions in industry or government. The biographical details of the Board members are set out on page 59. On joining the Board, Directors are given background documents describing the Company and its activities. For new Directors, site visits are arranged to the major business units. Arrangements have also been made for senior executives below Board level to attend Board meetings and make presentations on the results and strategies of their business units.

T O Hutchison served as a Director and as Deputy Chairman of the Company until he retired at the Annual General Meeting on 7 May 1998. Mr Hutchison also served as Chairman of the Audit and Remuneration Committees. The Board is considering candidates to serve as Deputy Chairman. The Combined Code states that the Board should have a recognised senior member to whom concerns can be conveyed. When appointed the Deputy Chairman will act as the recognised senior member of the Board.

All of the Non-Executive Directors are independent of management and have no relationships which could materially interfere with the exercise of their independent judgement.

Board members are given appropriate documentation in advance of each Board and Committee meeting. For Board meetings these documents include a report on current trading and business issues from the Chief Executive, a period financial report, proposals for capital expenditures, proposals for acquisitions and disposals and proposals for senior executive appointments. In addition to formal Board meetings, the Chairman and Chief Executive maintain regular contact with all Directors and hold informal meetings with the Non-Executive Directors at least twice a year to discuss issues affecting the Company.

The Board has approved an agreed procedure for Directors to take independent professional advice if necessary at the Company's expense (up to a maximum of £25,000). Before incurring professional fees the Director concerned must consult with the Chairman of the Board or with two other Directors (one of whom is Non-Executive). Such advice was not sought by any Director during 1998.

Directors have direct access to the advice and the services of the Group Secretary who is responsible for ensuring that Board procedures are followed.

Committees of the Board
Audit Committee
Members: Non-Executive Directors
Chairman: I F H Davison

The Chairman, the Group Chief Executive, the Group Finance Director and the Director of Financial Policy and Services attend meetings at the invitation of the Committee.

The Audit Committee deals with accounting matters, financial reporting and internal controls. It meets at least twice a year and reviews the annual and interim financial statements before they are submitted to the Board. The Committee also monitors proposed changes in accounting policy, reviews the internal audit functions, meets with external auditors and discusses the accounting implications of major transactions. In 1998 the Audit Committee met twice.

Chief Executive's Committee
Members: Executive Directors and Group Secretary
Chairman: J M Sunderland

The Chief Executive's Committee deals with a wide range of matters, including review of four-weekly financial results and forecasts, proposals for capital expenditure and major operating issues which arise out of the ordinary course of business. The Committee reviews acquisitions, disposals and associate investments, budgets and long range plans before they are submitted to the Board. The Committee also reviews a report issued for each meeting by the treasury department on borrowings and other financial matters. In 1998 the Chief Executive's Committee met twelve times.

Nomination Committee
Members: Chairman, Group Chief Executive, Sir John Whitehead, Baroness Wilcox and I F H Davison
Chairman: Sir Dominic Cadbury

This Committee is empowered to bring to the Board recommendations as to the appointment of any new executive or non-executive director, provided that the Chairman, in developing such recommendations, consults all Directors and reflects that consultation in any recommendation of the Nomination Committee brought forward to the Board.

The Combined Code states that a majority of the members of the Nomination Committee should be non-executive directors. The Company now complies with this provision but did not comply during 1998. The mixture of Non-Executive and Executive Directors on the Board and the Nomination Committee ensures that a review of Board candidates is undertaken in a disciplined and objective manner.

Nomination Committee continued
The members of the Nomination Committee included T O Hutchison until his retirement on 7 May 1998. Sir John Whitehead and Baroness Wilcox were appointed to this Committee on 26 June 1998. I F H Davison was appointed as a member of this Committee on 19 February 1999.

Remuneration Committee
Members: Non-Executive Directors
Chairman: Dr F B Humer

The Chairman, the Group Chief Executive and the Group Human Resources Director attend meetings at the invitation of the Committee.

The Remuneration Committee reviews and approves the annual salaries, incentive arrangements, service agreements and other employment conditions for the Executive Directors. Information prepared by independent consultants and appropriate survey data on the remuneration practices of comparable companies is taken into consideration. The Company has complied with Schedule A of the Combined Code throughout the year. The Remuneration Committee met seven times in 1998.

The Directors' Remuneration, the Remuneration Policy, Directors' Emoluments and Interests in Share Capital are detailed on pages 67 to 76 of this Report of the Directors.

Directors
The names of the Directors at the date of this Report, together with brief biographical details, are set out on page 59. All the Directors held office throughout the year except for D A R Thompson who was appointed on 9 March 1998. T O Hutchison also held office in the year until his retirement, as both Deputy Chairman and as a Director, at the Annual General Meeting on 7 May 1998.

The Company's Articles of Association provide that at every Annual General Meeting of the Company one-third (or the number nearest to but not exceeding one-third) of the Directors shall retire from office. The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-appointment. A retiring Director is eligible for re-appointment. Any Director appointed by the Board shall hold office only until the next following Annual General Meeting but shall not be taken into account in determining the Directors or the numbers of Directors who are to retire by rotation at that meeting. If at any Annual General Meeting the place of a retiring Director is not filled, the retiring Director, if willing to act, is deemed to have been re-appointed, unless at such meeting it is resolved not to fill the vacated office or unless a resolution for the re-appointment of that Director has been put to the meeting and lost. The Board may from time to time appoint one or more of its number to any executive office for such period and on such terms as it thinks fit.

The Combined Code states that all Directors should be subject to re-election at intervals of no more than three years. Under the Company's Articles of Association it may be possible for a Director to serve four years before re-appointment by shareholders. The Company intends to amend its Articles to comply with the Combined Code the next time it makes other changes to its Articles of Association.

At the Annual General Meeting held on 7 May 1998, J M Sunderland, I F H Davison and Dr F B Humer retired by rotation and, being eligible, were re-appointed. R S Braddock and D A R Thompson, who were appointed to the Board after the Annual General Meeting in 1997, on 27 June 1997 and 9 March 1998 respectively, retired at the Annual General Meeting 1998 and, being eligible, were re-appointed. T O Hutchison also retired at the Annual General Meeting 1998 and did not seek re-appointment.

At the Annual General Meeting to be held on 6 May 1999, Sir Dominic Cadbury, J F Brock, D J Kappler and Sir John Whitehead will retire by rotation in accordance with Article 90 of the Articles of Association and each, being eligible, will offer himself for re-appointment.

J F Brock and D J Kappler have service contracts with the Company which are terminable by the Company giving two years' notice. Sir Dominic Cadbury, who also has a service contract with the Company, intends to retire in May 2000 and his service contract expires at that time. As a Non-Executive Director, Sir John Whitehead does not have a service contract with the Company.

Part B: Directors' Remuneration

The Report on Directors' Remuneration is set out on pages 67 to 76.

Part C: Relations with Shareholders

The Company maintains good communications with shareholders. Senior executives of the Company, including the Group Chief Executive, the Group Finance Director and the Director of Investor Relations meet frequently with representatives of institutional shareholders to discuss their views and to ensure that the strategies and objectives of the Company are well understood. Issues discussed with institutional shareholders include the Company's performance, the impact of major transactions such as acquisitions or disposals and any corporate governance concerns.

Annual General Meeting ("AGM")

The AGM will be held on Thursday, 6 May 1999 at 2.30 pm at the Royal Lancaster Hotel, Lancaster Terrace, London W2 2TY. The Notice of Meeting will be contained in the separate Annual General Meeting booklet which will be enclosed with this Annual Report for shareholders. The booklet will contain the text of the resolutions to be proposed and explanatory notes concerning the proposals to authorise the Directors to allot relevant securities and to allot equity securities for cash other than on a pre-emptive basis. In addition, resolutions will be proposed to authorise the Company to purchase its own shares, as and if appropriate, and to divide each ordinary share of 25p into two ordinary shares of 12.5p. Resolutions will also be proposed to amend the 1997 Long Term Incentive Plan, the Australia and New Zealand 1993 Employee Options Contribution Plan and the US and Canada Employee Stock Purchase Plan 1994.

In accordance with the recommendation of the Combined Code, the Company will make arrangements this year to advise shareholders attending the AGM of the number of proxy votes lodged for each resolution, in the categories "For" and "Against", together with the numbers "at the Chairman's discretion" and of abstentions. These will be advised after each resolution has been dealt with on a show of hands. In accordance with the Company's usual practice there will be a statement by the Chairman at the AGM regarding the Company's performance in 1998 and a brief statement on current trading conditions. It is intended that the Chairmen of the Audit, Nomination and Remuneration Committees will attend the AGM. 495 registered shareholders, or their proxies or Corporate Representatives, attended the Annual General Meeting in 1998, representing 0.07% of the issued share capital.

Part D: Accountability and Audit

Directors' Responsibility

The Statement of Directors' responsibilities in relation to Financial Statements is set out on page 84.

The Statement by the Auditors on Corporate Governance matters is contained in their Report on pages 84 and 85.

Auditors

The Auditors, Arthur Andersen, are willing to continue in office. A resolution for their re-appointment and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Going Concern

On the basis of current financial projections and facilities available, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing Financial Statements.

Internal Financial Control

The system of internal financial control comprises those controls established in order to provide reasonable assurance of:

(a) the safeguarding of assets against unauthorised use or disruption; and
(b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

While acknowledging their responsibility for the system of internal financial control the Directors are aware that such a system cannot provide an absolute assurance against material mis-statement or loss.

The key elements of the system are as follows:

(a) "The Character of the Company", a statement of corporate values and a recently published "Code of Conduct" which are both distributed throughout the Group;
(b) clearly defined organisation structures and limits of authority;
(c) corporate policies for financial reporting, accounting, financial risk management, information security, project appraisal and corporate governance;
(d) operation of a group treasury department solely to manage financial risk, arrange funding required by Group companies and carry out treasury policies as set by the Directors;
(e) annual budgets and long term business plans for all operating units, identifying key risks and opportunities;
(f) monitoring of performance against plans and budgets and reporting thereon to the Directors on a four-weekly basis;
(g) an internal audit department which reviews key business processes and controls, including performing annual reviews and spot checks on the group treasury department; and
(h) an Audit Committee which approves audit plans and deals with significant control issues raised by internal or external audit.

The Directors confirm that reviews of the effectiveness of the system of internal financial control were carried out during the year.

Audit Committee and Auditors

The Board of Directors has established an Audit Committee. The membership of this Committee and the terms of reference are set out on page 63.

Statement of Compliance with the Code of Best Practice

As stated on page 62, the Company complied with the Code of Best Practice issued by the Committee on The Financial Aspects of Corporate Governance until June 1998 and since that date the Company has complied with the Provisions of the Code of Best Practice set out in Section 1 of the Combined Code, except for the following matters which are more fully described in the statement on applying the principles of good governance or in the Report on Directors' Remuneration; (i) appointment of a senior Non-Executive Director, see page 62; (ii) providing a one year notice period in the service contracts of Executive Directors, see page 70; (iii) making incentive payments non-pensionable, see page 69; (iv) having a majority of Non-Executive Directors on the Nomination Committee, see page 63; and (v) re-appointment of Directors by shareholders every three years, see page 64.

Report on Directors' Remuneration

Remuneration Policy

The composition of the Remuneration Committee of the Board is detailed on page 64.

The policy of the Remuneration Committee is to ensure that the remuneration practices of the Company are competitive, thereby enabling the Company to attract and retain high calibre executives and at the same time protect the interests of shareholders. In framing its remuneration policy, the Remuneration Committee receives advice from external consultants. This advice includes information on the remuneration practices of consumer products companies of a size and standing similar to the Company, including competitors and other businesses which trade on a worldwide basis. This information also includes data on a broad range of companies with operations in many different lines of business.

Salaries for Executive Directors

In setting the basic salary of each Director, the Remuneration Committee takes into account the pay practices of other companies and the performance of each individual Director.

Annual Incentive Plan

Annual incentive targets are set each year to take account of current business plans and conditions and there is a threshold performance below which no award is paid. In 1998 annual incentive awards for Directors were based on the achievement of real growth in net profit. Those annual awards were based on objective financial tests subject to appropriate adjustments as determined by the Remuneration Committee. The target incentive award for Executive Directors is 60% of basic salary. However, in the case of exceptional results the annual incentive payment may increase up to a maximum of 90% of basic salary. Incentive awards to Executive Directors for 1997 and 1998 averaged 73% and 59%, respectively, of basic salary. The Chairman does not participate in the Annual Incentive Plan.

Bonus Share Retention Plan

The Bonus Share Retention Plan ("BSRP") is applicable to Annual Incentive Plan awards for 1998. 148 senior executives, including five Directors, are eligible to participate in the BSRP. The BSRP enables participants to defer all or part of their Annual Incentive Plan award and receive such award in the form of Cadbury Schweppes ordinary shares ("deferred shares") rather than cash. After a three year period the Company will provide participants with three additional shares for every five deferred shares. All shares under the BSRP are purchased in the market and held in trust until the end of the three year period. If a participant leaves the Company during the three year period, the participant forfeits part of the additional shares and in certain cases it is possible that all of the additional shares and the deferred shares may be forfeited.

Long Term Incentive Plans

The 1997 Long Term Incentive Plan (the "1997 LTIP") replaced the prior Long Term Incentive Plan (the "Old LTIP") under which awards are still outstanding. Participation in the 1997 LTIP is at the discretion of the Remuneration Committee. Awards have been granted to 32 senior executives, including six directors.

The 1997 LTIP operates over a three year performance cycle with a new cycle starting each year. The first performance cycle started with the calendar year 1997. An award consists of the contingent right to receive an amount equal to the market value, at the end of the performance cycle, of a designated number of ordinary shares provided that the maximum amount which can be earned at the end of the performance cycle is 100 per cent of the participant's base salary at the start of the performance cycle. Shareholders will be asked to approve an amendment at the Annual General Meeting on 6 May 1999 which would change this limit so that it is applied at the beginning of a performance cycle by reference to the market value of ordinary shares at that time.

The Remuneration Committee has the discretion as to whether the earned amount of any award shall be paid in ordinary shares of the Company after the end of the performance cycle and/or as a deferred share award. A deferred share award is the right after a further period (the "deferral period") to receive or acquire ordinary shares of the Company. The Committee's present intention is that the earned amount in respect of the initial awards will be paid half in shares and half in the form of deferred shares to be released or exercised after a further two year period.

Awards under the BSRP and the 1997 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 Company, 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 Company's employee share schemes.

Each award under the 1997 LTIP is subject to objective performance criteria determined by the Remuneration Committee. In each of 1997 and 1998, participants were granted two awards with separate performance targets. The first award (the "TSR Award") is based on total shareholder return (that is, share price growth plus re-invested dividends) ("TSR") subject to a minimum requirement that the growth in the Company's earnings per share over the performance cycle must exceed the rate of inflation over the same period by at least 2%.

Under the TSR Award, the Company's TSR over the performance cycle will be compared with a weighted average TSR performance of a peer group of both UK and non-UK Fast Moving Consumer Goods (FMCG) companies (weighted 75% and 25% respectively). These companies have been selected to reflect the global nature of the Company's business. No part of the TSR award will be earned if the performance is below the 50th percentile of the peer group. For performance at or above the 80th percentile the award will be earned in full.

For the second award (the "EPS award"), the performance target is linked to the Company's earnings per share. The EPS award will be earned in full if over the performance cycle the growth in earnings per share exceeds the rate of inflation over the same period by at least 4% per annum.

If either award is not earned in accordance with the performance requirements above, it will be deferred on an annual basis for up to three years until the performance requirement is achieved by comparing the same performance requirements over the period of four, five and six years. Should an award not be earned after six years, the award will lapse.

Table 4·4 on page 72 details the interests of the Executive Directors who served during the year in the LTIP at the beginning of the year (4 January 1998), at the end of the year (2 January 1999) and changes during the year. At 2 January 1999 Executive Directors had interests in the Old LTIP in respect of the 1996-1998 cycle. They had interests in the 1997 LTIP in respect of the 1997-1999 and 1998-2000 cycles. In March 1998 the Remuneration Committee approved awards which had been earned for the 1995-1997 cycle. Release of awards in respect of the 1993-1995 cycle (together with accrued share dividends) was made in April 1998.

Retirement Benefits

The Company operates a number of retirement programmes throughout the world. Pension benefits reflect local competitive conditions and legal requirements.

Sir Dominic Cadbury, J M Sunderland and D J Kappler participate in the UK pension arrangements. J F Brock and R J Stack participate in the US pension arrangements and I D Johnston has past service benefits under Australian pension arrangements and accrues benefits under UK pension arrangements for current service. Further details of these arrangements are set out below and on page 73.

In the UK, annual incentive awards of up to 20% of basic salary are pensionable. The percentage of overall pay which is dependent on performance is substantial and has increased over recent years. Given the increase in the total proportion of remuneration which is variable pay, the Remuneration Committee considers that it is appropriate for a portion of such pay to be pensionable. Pension arrangements in the US and Australia provide that incentive awards under the Annual Incentive Plan are pensionable. The pensionability of such incentive awards in the UK, US and Australia is consistent with long standing arrangements for the Company's other senior executives.

Share Schemes

The Company operates an Inland Revenue approved Savings-Related Share Option Scheme in the UK, under which employees may save to purchase ordinary shares in the Company. Similar share plans operate in Ireland, Australia, New Zealand, the US, Canada, Belgium, France and Spain with variations reflecting legislative requirements in those countries.

In January 1997, the Company established an additional employee trust, the Cadbury Schweppes plc Qualifying Employee Share Ownership Trust (the "QUEST"), for the purpose of distributing ordinary shares in the Company on the exercise of options under the UK Savings-Related Share Option Scheme. The trustee of the QUEST is Cadbury Schweppes Group Trustees Limited, a subsidiary of the Company. All employees of Group companies in the UK, including Executive Directors of the Company, are potential beneficiaries under the QUEST.

Since 1984 the Company has also operated share option schemes for senior executives. At the Annual General Meeting in 1994 the Company's Share Option Scheme 1984 for Main Board Directors and Senior Executives and the Share Option Scheme 1986 for Senior Management Overseas were replaced by the Cadbury Schweppes Share Option Plan 1994 (the "1994 Plan"). The 1994 Plan provides that each option will be subject to an objective performance target set by the Remuneration Committee.

Grants of options were made under the 1994 Plan during 1998 and the Remuneration Committee, in making such grants, set the performance target to be achieved before such options can be exercised. Options cannot be exercised unless and until the percentage growth in the Company's earnings per share over a period of three consecutive financial years has exceeded the rate of inflation over the same period by at least 2% per year compound (or 6.12% over such three year period).

Share Schemes continued
Further details on share plans are provided in Note 29 to the Financial Statements.

The Executive Directors have participated as appropriate in the Share Option Scheme 1984 for Main Board Directors and Senior Executives, in the Share Option Scheme 1986 for Senior Management Overseas and in the 1994 Plan.

From 1994 to 1996 inclusive, options under the 1994 Plan were generally granted to Executive Directors annually to a value equivalent to 1 to 1⅓ times annual salary subject to individual subscription limits set by institutional guidelines. The number of shares under option is reduced on a pro-rata basis if the Director leaves the Company within three years of the option grant. When the 1997 LTIP was introduced it was decided that Executive Directors would no longer participate in the 1994 Plan.

Each Executive Director has also participated, as applicable, in the savings-related share option scheme operated in the country in which his contract of employment is based.

Service Contracts
All of the Executive Directors have service contracts with the Company. Their contracts require two years' notice of termination by the Company. Under the secondment arrangements J F Brock, R J Stack and I D Johnston are entitled to six months' employment with their employing company in their home country if there are no suitable opportunities for them when their secondments end. The contracts for Directors provide for liquidated damages equal to the lesser of two times base salary and the salary due from the date of notification of termination to normal retirement date.

The Combined Code states that: "There is a strong case for setting notice or contract periods at, or reducing them to, one year or less. Boards should set this as an objective, but they should recognise that it may not be possible to achieve it immediately.". Although the Company provides for two year notice periods rather than one year, the actual amount of two times base salary to be paid as liquidated damages is probably less than one year's full remuneration for an Executive Director, as the payment of full remuneration for one year would have to take account of base salary, annual incentive payments, LTIP payments, additional pension contributions and other benefits in kind.

The Committee believes that the current form of contract is appropriate in order to retain and recruit Directors of an appropriate calibre. The Committee will, however, keep this and further developments under review.

The Non-Executive Directors do not have service contracts with the Company. It is the policy of the Company to appoint Non-Executive Directors for an initial period of three years. Unless otherwise determined by the Board the maximum term is nine years. These appointments are subject to appointment and re-appointment at the relevant Annual General Meeting.

Executive Directors – Outside Appointments
The Company recognises the benefits to the individual and to the Company of involvement by Executive Directors of the Company as Non-Executive Directors in companies not associated with the Company. Subject to certain conditions, each Executive Director is permitted to accept an appointment as a Non-Executive Director in another company. The Executive Director is permitted to retain any fees paid for such service. Unless otherwise determined by the Board, Executive Directors may not accept more than one such Non-Executive Directorship.

Fees for Non-Executive Directors

The remuneration of each of the Non-Executive Directors is determined by the Board as a whole within the overall limits set by the Articles of Association. The Non-Executive Directors do not take part in discussions on their remuneration.

Directors' Emoluments

A summary of the Directors' emoluments is given in Table 4·2 and individual details in Table 4·3.

Table 4·2

Summary for Year

	1998 £000	1997 £000
Directors' Remuneration		
Total remuneration:		
– Fees as Directors	**220**	204
– Salaries and other benefits	**3,129**	2,799
– Annual bonus/BSRP	**1,673**	1,863
– LTIP	**2,919**	133
– Compensation for loss of office	**–**	366
	7,941	5,365
Pension contributions:		
– Defined benefits	**520**	732
Payments for former Directors or their dependants		
– Pensions	**24**	23
– Other	**91**	112
	8,576	6,232

During the year the Company provided pension contributions on behalf of Sir Dominic Cadbury as Chairman and J F Brock as the highest paid Director of £nil (1997: £56,000) and £140,000 (1997: J F Brock £125,000) respectively.

Directors' Emoluments continued

Table 4·3

Individual Details

	Basic Salary/Fees £000	Annual Incentive Plan/ BSRP £000	1998 LTIP £000	Allowances and benefits £000	**1998 Total £000**	1997 Total £000
Sir Dominic Cadbury	600	–	864	76	**1,540**	672
J M Sunderland	490	492	564	18	**1,564**	954
J F Brock	354	443	458	391	**1,646**	1,129
I D Johnston	313	178	353	10	**854**	612
D J Kappler	332	329	388	18	**1,067**	657
R J Stack	227	231	292	300	**1,050**	709
T O Hutchison (a)	21	–	–	–	**21**	56
R S Braddock	60	–	–	–	**60**	31
I F H Davison	31	–	–	–	**31**	26
F B Humer	31	–	–	–	**31**	26
D A R Thompson (b)	23	–	–	–	**23**	–
Sir John Whitehead	27	–	–	–	**27**	26
Baroness Wilcox	27	–	–	–	**27**	21

(a) Resigned 7 May 1998
(b) Appointed 9 March 1998
(c) All the Annual Incentive Plans, BSRP and LTIP awards shown above will be taken in the form of shares, the majority of which will not vest for at least two years.
(d) The BSRP award will be used to purchase shares which will be held subject to the terms and conditions of the BSRP as described on page 67. At the end of the three year period if the participating Director is still an employee of the Company, he will receive the shares together with the additional shares (in the ratio of three additional shares for every five shares awarded under the BSRP). The assumption is now that all such shares will vest and so the cost of the BSRP award is also reflected in the above Table: 1997 has been re-stated accordingly.
(e) The allowances and benefits for J F Brock, I D Johnston and R J Stack include housing and other expatriate allowances.

Long Term Incentive Plan

Details of the Old LTIP and the 1997 LTIP are described on pages 68 and 69. Ordinary shares held on behalf of the Directors in trust at 4 January 1998 and 2 January 1999, in addition to ordinary shares awarded to the Directors in 1998, are detailed below together with cash awards made in the year. All awards set out below are in respect of the Old LTIP.

Table 4·4

	Shares held in trust at 4 January 1998	Share awards (a)	Vesting of share awards (b)	Shares held in trust at 2 January 1999	Value received in year	
					Shares £	Cash £
Sir Dominic Cadbury	23,307	3,877	14,897	12,287	30,997	31,003
J M Sunderland	5,516	1,311	3,239	3,588	10,481	10,487
J F Brock	4,227	843	2,562	2,508	6,740	6,745
I D Johnston	2,915	759	1,724	1,950	6,068	6,073
D J Kappler	2,706	777	1,442	2,041	6,212	6,216
R J Stack	2,273	576	1,314	1,535	4,605	4,612

(a) Awards for the 1995-1997 cycle approved in March 1998. These were included in the Directors' remuneration details in the Annual Report 1997.
(b) Vesting of share awards of the 1993-1995 cycle, and accrued share dividends, in April 1998.

Pensions
Sir Dominic Cadbury is a deferred member of the Cadbury Schweppes Pension Fund ("CSPF") and the Cadbury Schweppes Supplementary Pension Scheme ("CSSPS"). J M Sunderland and D J Kappler are also members of the CSPF and the CSSPS. These are defined benefit retirement plans with a pension paid on retirement based on salary and length of service. Members contribute 5% of salary and pensionable bonus. The target benefit is two-thirds of pensionable earnings (current salary and three years average of pensionable bonuses). The normal retirement age is 60.

J F Brock and R J Stack are members of the US Supplemental Executive Retirement Plan ("SERP") as well as the US cash balance pension plan and excess plan. The SERP is a defined benefit retirement plan with a pension paid on retirement based on salary and length of service. Combined benefits are 50% of a three year average of final pensionable earnings after 15 years service and 60% after 25 or more years' service. Mr Brock and Mr Stack may retire at age 60 without a reduction factor applied to accrued benefits. The SERP has a ten year vesting period. Mr Stack's benefit has not yet vested but for the purposes of disclosure it has been assumed that benefits accrue evenly over the first ten years of membership. Mr Stack's benefits will vest on 22 August 2000.

I D Johnston is a deferred member of the Australian Cadbury Schweppes Superannuation Fund and the Sweetenam Investments Fund. Mr Johnston accrues benefits for current service under the CSPF and CSSPS for salary below the pension earnings cap, currently £87,600 a year. Mr Johnston accrues pension benefits for pensionable salary above the earnings cap under a book reserve arrangement operated in the UK. Mr Johnston's agreed total benefit from all of these arrangements will be equivalent to 6.896 times the three year average of final pensionable earnings at his normal retirement age of 60.

Table 4·5

	Accrued benefit at 2 January 1999		Increase in year net of inflation	Increase in transfer value less member's contribution
	Pension £000	Lump sum £000	£000	£000
UK Pension Arrangements				
Sir Dominic Cadbury	388	–	10	192
J M Sunderland	315	–	35	555
D J Kappler	166	–	22	331
US Pension Arrangements				
J F Brock (a)	286	–	81	433
R J Stack (a)	101	–	32	148
Australian/UK Retirement Arrangements				
I D Johnston	–	1,428	273	228

(a) The pension arrangements for J F Brock and R J Stack are made in US dollars, and converted for the purpose of this information only at the rate of US$1.64 = £1.

Directors' Interests in Ordinary Shares and Share Options

The interests of the Directors holding office at 2 January 1999 ("1998") and at 4 January 1998, the beginning of the year (or the date of appointment if later) ("1997"), in the share capital of the Company are detailed in Table 4·6 below:

Table 4·6

	Ordinary Shares of 25p (a)		Options over Ordinary Shares of 25p			
	1997	**1998**	1997	Granted (b)	Exercised (c)	**1998**
Sir Dominic Cadbury	688,355	**696,125**	385,899	Nil	6,493	**379,406**
R S Braddock	8,000	**8,000**	Nil	Nil	Nil	**Nil**
J F Brock	57,890	**131,984**	313,841	848	30,396	**284,293**
I F H Davison	1,778	**1,778**	Nil	Nil	Nil	**Nil**
F B Humer	1,043	**1,043**	Nil	Nil	Nil	**Nil**
I D Johnston	86,576	**121,767**	170,883	3,000	1,300	**172,583**
D J Kappler	63,266	**111,211**	139,602	505	30,416	**109,691**
R J Stack	46,415	**77,053**	163,161	848	1,568	**162,441**
J M Sunderland	114,033	**149,757**	318,494	Nil	2,304	**316,190**
D A R Thompson	Nil	**Nil**	Nil	Nil	Nil	**Nil**
Sir John Whitehead	1,251	**1,251**	Nil	Nil	Nil	**Nil**
Baroness Wilcox	2,183	**2,203**	Nil	Nil	Nil	**Nil**
	1,070,790	**1,302,172**	1,491,880	5,201	72,477	**1,424,604**

(a) Directors' holdings of ordinary shares include shares held in trust under both the Long Term Incentive Plan and the Bonus Share Retention Plan.
(b) Details of individual grants of options during the year are given in Table 4·7 below.
(c) Details of individual exercises of options during the year are given in Table 4·8 on page 75.

Details of individual grants of options during the year are given in Table 4·7 below:

Table 4·7

	Number of shares over which options granted	Exercise price per share	Date of Grant	Name of option plan and exercise period
J F Brock	780(a)	US$12.7825	15 April 1998	(b)
I D Johnston	3,000	A$19.51	8 April 1998	(c)
D J Kappler	505	£6.828	16 October 1998	(d)
R J Stack	780(a)	US$12.7825	15 April 1998	(b)

(a) Options over a further 68 shares were granted as detailed in note (c) to Table 4·8 on page 75.
(b) United States and Canada Employee Stock Purchase Plan 1994. Exercise period 24 April 2000 to 5 May 2000.
(c) Australia and New Zealand 1993 Employee Options Contribution Plan. Exercise period 15 August 1999 to 11 September 1999 or 13 August 2000 to 9 September 2000 or 12 August 2001 to 8 September 2001.
(d) Savings-Related Share Option Scheme 1982. Exercise period 1 January 2004 to 30 June 2004.

Details of individual exercises of options during the year, divided between savings-related options and executive options, together with the weighted average market price of the shares at the date of exercise, are given in Table 4·8 below:

Table 4·8

	Number of shares over which options exercised					
	Savings related option	Executive option	Name of option plan and exercise period	Exercise price	Market price on exercise £	Notional gain £
Sir Dominic Cadbury	645		(a)	£3.2540	6.2750	1,949
	5,848		(b)	£2.3081	7.5800	30,830
						32,779
J F Brock	1,568		(c)	US$6.6550	8.8600	7,511
		28,828	(d)	£3.1973	9.2500	174,487
						181,998
I D Johnston	1,300		(e)	A$9.8900	8.8500	6,902
D J Kappler	2,304		(a)	£3.2540	6.2750	6,960
		28,112	(f)	£4.0914	9.4750	151,344
						158,304
R J Stack	1,568		(c)	US$6.6550	8.8600	7,511
J M Sunderland	2,304		(a)	£3.2540	8.2450	11,499

The total notional gains on exercise amounted to £398,993 (1997: £355,433).
(a) Savings-Related Share Option Scheme 1982. The exercise period expired on 30 June 1998.
(b) Savings-Related Share Option Scheme 1982. The exercise period expired on 31 July 1998.
(c) United States and Canada Employee Stock Purchase Plan 1994. The number of ordinary shares acquired by J F Brock and R J Stack included 1,500 shares originally granted plus 68 shares which were attributable to the interest earned on the savings. The exercise period expired on 24 April 1998.
(d) Share Option Scheme 1986 for Senior Management Overseas. Exercise period 3 April 1992 to 2 April 1999.
(e) Australia and New Zealand 1993 Employee Options Contribution Plan. Exercise periods 16 August 1998 to 12 September 1998 or 15 August 1999 to 11 September 1999 or 13 August 2000 to 9 September 2000.
(f) Share Option Plan 1994. Exercise period 2 November 1997 to 1 November 2004.

The market prices of ordinary shares at 5 January 1998 and 30 December 1998, the first and last dealing days in the year, were £6.135 and £10.25 respectively.

The weighted average exercise price of grants of options held at the year end, 2 January 1999, are given in Table 4·9 below:

Table 4·9

	Number of shares over which options have been granted	Weighted average price in £ per share
Sir Dominic Cadbury	379,406	4.4718
J F Brock	284,293	4.3618
I D Johnston	172,583	4.7279
D J Kappler	109,691	5.0017
R J Stack	162,441	4.4900
J M Sunderland	316,190	4.6479

Directors' Interests in Ordinary Shares and Share Options continued
As a consequence of the establishment of the QUEST (see page 69) the Executive Directors are treated as being interested in any dealings in the Company's shares by the QUEST. During the period 4 January 1998 to 24 February 1999 the QUEST acquired a total of 4,019,062 ordinary shares in the Company by subscription at prices between 230.81p and 1033.5p per share. Those ordinary shares were all transferred by the QUEST to individuals who had exercised options under the Savings-Related Share Option Scheme 1982. At 24 February 1999 the QUEST held no ordinary shares in the Company.

The following Directors have interests in the Class C shares of American Bottling Holdings, Inc ("ABH") (the holding company of The American Bottling Company) in which the Company has an ultimate 39.3% interest: J F Brock 2,500; D J Kappler 500; I D Johnston 500 and R J Stack 250. In addition, on 18 May 1998, J F Brock was granted an option over 36,000 Class C shares in ABH, exercisable between 18 May 1999 and 17 May 2008, subject to resolutions of the Board of Directors of ABH and the satisfaction of certain criteria, at an exercise price of US$100 per share.

There were the following changes in the interests of Directors between 3 January 1999 and 24 February 1999:

(a) On 2 February 1999 Sir Dominic Cadbury exercised an option over 2,078 ordinary shares at 311.79p per share under the Savings-Related Share Option Scheme 1982, retaining the acquired shares.
(b) On 2 February 1999 D J Kappler exercised an option over 978 ordinary shares at 352.67p per share under the Savings-Related Share Option Scheme 1982, retaining the acquired shares.

Save as disclosed, there have been no other changes in the interests of the Directors between 3 January 1999 and 24 February 1999.

All the interests detailed above were beneficial. The non-beneficial interests of Sir Dominic Cadbury were 763,105 ordinary shares (1997: 778,105). Save as disclosed, none of the Directors had any other interest in the securities of the Company or the securities of any other company in the Group.

The Register of Directors' Interests, which is open to inspection, contains full details of Directors' shareholdings and options.

By Order of the Board
M A C Clark
Secretary
24 February 1999

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Group Financial Record

Sales and Profits	1998 £m	1997 £m
Sales		
United Kingdom	**1,003**	1,069
Europe	**799**	788
Americas	**1,515**	1,478
Pacific Rim	**505**	573
Africa and Others	**284**	312
	4,106	4,220
Trading Profit		
United Kingdom	**122**	132
Europe	**61**	59
Americas	**344**	318
Pacific Rim	**79**	78
Africa and Others	**36**	41
	642	628
Major restructuring (a)	**(14)**	(20)
Exceptional items	**(68)**	–
Group operating profit	**560**	608
Share of operating profit in associates	**38**	31
Total operating profit including associates	**598**	639
Disposal of subsidiaries, investments and properties	**38**	412
Net interest	**(57)**	(64)
Profit before Taxation	**579**	987
Taxation	**(183)**	(261)
Minority interests and Preference dividends	**(41)**	(35)
Profit for the Financial Year	**355**	691
Dividends to ordinary shareholders	**(194)**	(182)
Profit Retained for the Financial Year	**161**	509

Cash Flows (b)		
Cash flow from operating activities and associates	**698**	733
Capital expenditure, net	**(143)**	(204)
Taxation, returns on investments and servicing of finance	**(212)**	(205)
Ordinary dividends	**(186)**	(167)
Free cash flow	**157**	157
Acquisitions, disposals and investments	**(79)**	36
Cash flow before use of liquid resources and financing	**78**	193

Balance Sheets		
Assets employed:		
Intangible fixed assets and goodwill	**1,607**	1,575
Tangible fixed assets	**1,126**	1,221
Fixed asset investments	**171**	73
Working capital	**(100)**	3
Provisions	**(158)**	(248)
	2,646	2,624
Financed by:		
Net borrowings	**506**	649
Minority interests	**297**	306
Preference share capital (c)	**–**	–
Ordinary shareholders' funds	**1,843**	1,669
	2,646	2,624

(a) Includes acquisition-related restructuring from 1995 onwards (prior to this such costs were included in goodwill)
(b) Cash flow statements were not prepared prior to 1990
(c) Stated at redemption value

1996 £m	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
1,893	1,830	1,729	1,614	1,546	1,506	1,476	1,258
879	890	775	741	701	656	638	480
1,456	1,222	767	644	513	438	404	372
614	575	539	508	448	491	495	546
273	259	220	218	164	141	133	121
5,115	4,776	4,030	3,725	3,372	3,232	3,146	2,777
231	221	231	195	186	160	143	99
55	65	68	64	49	77	68	59
304	261	132	101	73	42	43	36
87	75	67	69	56	64	58	61
35	27	30	26	20	19	22	17
712	649	528	455	384	362	334	272
(41)	(49)	(23)	(19)	(13)	–	–	–
–	–	–	–	–	–	–	–
671	600	505	436	371	362	334	272
31	28	15	13	14	9	(4)	1
702	628	520	449	385	371	330	273
–	14	–	10	(1)	1	4	17
(110)	(116)	(42)	(43)	(51)	(57)	(57)	(31)
592	526	478	416	333	315	277	259
(180)	(158)	(155)	(129)	(94)	(88)	(78)	(70)
(72)	(68)	(61)	(50)	(43)	(34)	(26)	(17)
340	300	262	237	196	193	173	172
(171)	(159)	(131)	(117)	(98)	(88)	(80)	(76)
169	141	131	120	98	105	93	96
869	791	674	612	506	459	444	
(256)	(227)	(222)	(183)	(170)	(184)	(185)	
(327)	(308)	(243)	(148)	(150)	(127)	(146)	
(149)	(55)	(123)	(96)	(86)	(79)	(73)	
137	201	86	185	100	69	40	
(153)	(1,170)	(84)	(480)	(251)	(48)	(182)	
(16)	(969)	2	(295)	(151)	21	(142)	
1,547	1,689	522	546	385	308	304	307
1,398	1,432	1,346	1,288	1,241	1,054	979	821
69	60	200	196	42	34	17	25
(7)	(25)	25	(65)	7	(20)	44	68
(106)	(125)	(115)	(98)	(83)	(54)	(96)	(116)
2,901	3,031	1,978	1,867	1,592	1,322	1,248	1,105
1,227	1,344	351	357	378	333	364	425
387	371	128	145	130	112	116	85
104	113	180	192	189	156	152	–
1,183	1,203	1,319	1,173	895	721	616	595
2,901	3,031	1,978	1,867	1,592	1,322	1,248	1,105

5 Financial Record

Financial Ratios and Stream Analysis

			1998	1997
Earnings per Ordinary Share – Basic		pence	**35.0**	68.7
– Diluted		pence	**34.5**	68.0
– Underlying		pence	**39.4**	37.2
Dividends per Ordinary Share		pence	**19.0**	18.0
Interest cover		times	**11.7**	10.0
Dividend cover		times	**2.1**	2.1
Gearing ratio		%	**27**	37
Sales	Beverages (c)	£m	**1,937**	1,953
	Discontinued operations (d)	£m	**–**	47
	Confectionery	£m	**2,169**	2,220
Trading profit (a)	Beverages (c)	£m	**362**	342
	Discontinued operations (d)	£m	**–**	4
	Confectionery	£m	**280**	282
Operating assets	Beverages (c)	£m	**260**	273
	Discontinued operations (d)	£m	**–**	–
	Confectionery	£m	**1,002**	1,041
Trading margin (a)(c)	Beverages	%	**18.7**	17.5
	Confectionery	%	**12.9**	12.7
Operating asset turnover (c)	Beverages	times	**7.3**	7.4
	Confectionery	times	**2.1**	2.2

Underlying EPS

$$\frac{\text{Profit for the Financial Year excluding exceptional items, disposal gains and losses}}{\text{Weighted average number of ordinary shares in issue}}$$

Interest cover

$$\frac{\text{Total operating profit including associates and excluding exceptional items}}{\text{Net interest charge}}$$

Dividend cover

$$\frac{\text{Underlying Earnings per ordinary share}}{\text{Dividend per ordinary share}}$$

Gearing ratio

$$\frac{\text{Net borrowings}}{\text{Ordinary shareholders' funds (b) + Equity minority interests}}$$

Operating assets Tangible fixed assets, stock, debtors and creditors after excluding post-acquisition restructuring provisions, borrowings, taxation and dividends.

Trading margin

$$\frac{\text{Trading profit (a)}}{\text{Sales}}$$

Operating assets turnover

$$\frac{\text{Sales}}{\text{Average operating assets}}$$

(a) Excluding restructuring costs and exceptional items (see Note 3 to the Financial Statements)
(b) After stating preference shares at their redemption value (see Note 21(e) to the Financial Statements)
(c) From continuing operations
(d) Discontinued operations represent the Group's former UK bottling operations

1996	1995	1994	1993	1992	1991	1990	1989
34.1	31.3	30.2	29.4	25.4	26.0	23.9	25.0
33.8	31.0	29.9	29.1	25.1	25.8	23.4	24.7
34.1	29.9	30.2	28.3	25.4	26.0	23.9	22.8
17.0	16.0	15.0	13.8	12.5	11.8	10.9	10.1
6.4	5.4	12.4	10.4	7.5	6.5	5.8	8.8
2.0	1.9	2.0	2.0	2.0	2.2	2.2	2.3
92	102	24	27	37	40	50	63
1,954	1,916	1,409	1,316	1,172	1,137	1,093	998
921	893	794	749	731	708	730	661
2,240	1,967	1,827	1,660	1,469	1,387	1,323	1,118
321	289	164	141	106	115	109	99
124	120	129	106	91	77	62	46
267	240	235	208	187	170	163	127
255	327	275	261	338	315	326	260
214	199	316	367	344	273	239	208
1,028	995	863	743	686	576	548	531
16.4	15.1	11.6	10.7	9.0	10.1	10.0	9.9
11.9	12.2	12.9	12.5	12.7	12.3	12.3	11.4
6.7	6.4	5.3	4.4	3.6	3.5	3.7	4.7
2.2	2.1	2.3	2.3	2.3	2.5	2.5	2.6

US GAAP Financial Record

The Financial Statements are prepared in accordance with UK GAAP which differs in certain significant respects from US GAAP. A reconciliation to US GAAP is set out in Note 31 to the Financial Statements.

	1998 US$m	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
			(except per share data)			
Approximate Amounts in Accordance with US GAAP						
Trading profit from continuing operations (a)(b)	**780**	470	489	451	405	330
Profit from continuing operations (b)	**427**	257	260	208	181	178
Profit for the Financial Year (a)	**427**	257	617	247	217	222
Basic earnings per ADS from continuing operations (b)	**1.68**	1.01	1.03	0.84	0.76	0.82
Basic earnings per ADS	**1.68**	1.01	2.45	0.99	0.91	1.02
Underlying earnings per ADS (c)	**2.02**	1.22	1.08	0.99	0.85	1.02
Dividends (including tax credit except on FIDs) per ADS	**1.26**	0.76	0.72	0.85	0.80	0.75
Total assets	**9,243**	5,568	5,908	5,736	5,953	4,404
Long term debt	**828**	499	673	797	864	404
Shareholders' funds	**4,784**	2,882	2,814	2,485	2,626	2,283

(a) Trading profit is stated after restructuring charges, amortisation and adjustments relating to goodwill and other intangibles.
Profit for the Financial Year is stated after deducting preference dividends.
(b) Discontinued operations represent the Group's former UK bottling operations.
(c) Underlying earnings per ADS represents earnings per ADS excluding exceptional items and gains and losses on disposals of subsidiaries and investments. Gains and losses on disposals of subsidiaries and investments, net of tax and minority interests, were £23m gain in 1998, £317m gain in 1997 and £14m gain in 1995. No disposal gains or losses arose in 1996 or 1994. The US GAAP gains on disposals of subsidiaries and investments are equivalent, with the exception of 1997 in which the US GAAP gain was £345m. Exceptional items, net of tax arose in 1998 only, and amounted to £68m; under US GAAP the charge was £75m.

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Financial Statements

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Statement of Directors' responsibilities in relation to Financial Statements

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out in their report, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the Group's profit or loss and cash flows for the financial year.

The Directors consider that in preparing the financial statements the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' Report

To the Shareholders of Cadbury Schweppes plc

We have audited the financial statements on pages 86 to 134 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 92 to 96. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the directors which form part of the Report of the Directors on pages 71 to 76.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report including, as described above, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the statement on pages 62 to 67 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board in the UK which are substantially the same as those generally accepted in the US. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements a) give a true and fair view of the state of affairs of the Company and of the Group at 2 January 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985; b) present fairly in all material respects, the consolidated financial position of the Group at 2 January 1999 and 3 January 1998 and the consolidated results of its operations and cash flows for each of the three years in the period ended 2 January 1999 and in conformity with generally accepted UK accounting principles.

Accounting practices used by the Company in preparing the accompanying financial statements conform with generally accepted principles in the UK but do not conform with accounting principles generally accepted in the United States. A description of these differences and a complete reconciliation of consolidated net income and shareholders' equity to United States generally accepted accounting principles is set forth in Note 31 to the financial statements.

Arthur Andersen
Chartered Accountants and Registered Auditors
London
24 February 1999

Group Profit and Loss Account for the 52 weeks ended 2 January 1999 (Note 1)

Notes		1998 £m	1997 £m	1996 £m
	Turnover*			
	Continuing operations	**4,106**	4,173	4,194
2	Discontinued operations	**–**	47	921
		4,106	4,220	5,115
3	**Operating costs**			
	Trading expenses	**(3,464)**	(3,592)	(4,403)
	Major restructuring costs	**(14)**	(20)	(41)
	Exceptional items	**(68)**	–	–
		(3,546)	(3,612)	(4,444)
	Trading Profit*			
	Continuing operations	**560**	604	547
2	Discontinued operations	**–**	4	124
	Group Operating Profit	**560**	608	671
12	Share of operating profit in associates	**38**	31	31
	Total Operating Profit including associates	**598**	639	702
2	Profit on sale of subsidiaries and investments	**38**	412	–
	Profit on Ordinary Activities Before Interest	**636**	1,051	702
6	Net interest	**(57)**	(64)	(110)
	Profit on Ordinary Activities Before Taxation	**579**	987	592
7	Taxation			
	– On operating profit, associates and interest	**(174)**	(166)	(180)
	– On profit on sale of subsidiaries and investments	**(9)**	(95)	–
		(183)	(261)	(180)
	Profit on Ordinary Activities After Taxation	**396**	726	412
22	Equity minority interests	**(20)**	(12)	(44)
22	Non-equity minority interests	**(21)**	(22)	(23)
8	Preference dividends	**–**	(1)	(5)
	Profit for the Financial Year	**355**	691	340
8	Dividends paid and proposed to ordinary shareholders	**(194)**	(182)	(171)
	Profit Retained for the Financial Year	**161**	509	169
9	**Earnings per Ordinary Share of 25p**			
	– Basic	**35.0p**	68.7p	34.1p
	– Diluted	**34.5p**	68.0p	33.8p
	– Underlying	**39.4p**	37.2p	34.1p

*The stream and geographical analysis of turnover and trading profit is on pages 90 and 91 and shows trading profit of £642m (1997: £628m; 1996: £712m) which excludes major restructuring costs and exceptional items.

The accompanying notes are an integral part of the Group Profit and Loss Account.

Recognised Gains and Losses for the 52 weeks ended 2 January 1999 (Note 1)

Statement of Total Recognised Gains and Losses

	1998 £m	1997 £m	1996 £m
Cadbury Schweppes plc	**(8)**	455	130
Subsidiary undertakings	**341**	226	199
Associated undertakings	**22**	10	11
Profit for the Financial Year	**355**	691	340
Currency translation differences	**(15)**	(56)	(124)
Revaluation of fixed assets	**(3)**	–	–
Total Recognised Gains and Losses for the Year	**337**	635	216

Reconciliation of Movements in Shareholders' Funds

	1998 £m	1997 £m	1996 £m
Total recognised gains and losses for the year	**337**	635	216
Dividends to ordinary shareholders	**(194)**	(182)	(171)
New share capital subscribed	**31**	39	33
Goodwill adjustments (see Note 1)	**–**	(3)	(104)
Redemption of Preference Shares (see Note 21(e))	**–**	(107)	–
Other	**–**	–	(3)
Net increase/(decrease) in Shareholders' Funds	**174**	382	(29)
Shareholders' Funds at beginning of year	**1,669**	1,287	1,316
Shareholders' Funds at end of year	**1,843**	1,669	1,287

Balance Sheets at 2 January 1999 (Note 1)

Notes		Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
	Fixed Assets				
10	Intangible assets and goodwill	**1,607**	1,575	**–**	–
11	Tangible assets	**1,126**	1,221	**19**	16
12	Investments in associates	**170**	72	**11**	11
12	Investments	**1**	1	**3,612**	4,154
		2,904	2,869	**3,642**	4,181
	Current Assets				
13	Stocks	**409**	419	**–**	–
14	Debtors				
	– due within one year	**741**	693	**54**	108
	– due after one year	**19**	18	**6**	8
19	Investments	**416**	682	**–**	98
19	Cash at bank and in hand	**104**	86	**–**	–
		1,689	1,898	**60**	214
	Current Liabilities				
	Creditors: amounts falling due within one year				
19	– Borrowings	**(527)**	(744)	**(927)**	(1,436)
15	– Other	**(1,217)**	(1,084)	**(286)**	(179)
	Net Current (Liabilities)/Assets	**(55)**	70	**(1,153)**	(1,401)
	Total Assets less Current Liabilities	**2,849**	2,939	**2,489**	2,780
	Non-current Liabilities				
	Creditors: amounts falling due after more than one year				
19	– Borrowings	**(499)**	(673)	**(850)**	(879)
15	– Other	**(52)**	(43)	**–**	–
16	Provisions for liabilities and charges	**(158)**	(248)	**(1)**	(101)
		(709)	(964)	**(851)**	(980)
	Net Assets	**2,140**	1,975	**1,638**	1,800
	Capital and Reserves				
21	Called up share capital	**254**	252	**254**	252
21	Share premium account	**916**	878	**916**	878
21	Capital redemption reserve	**87**	87	**87**	87
21	Revaluation reserve	**63**	67	**1**	1
21	Profit and loss account	**523**	385	**380**	582
	Shareholders' Funds	**1,843**	1,669	**1,638**	1,800
	Minority Interests				
22	Equity minority interests	**61**	68	**–**	–
22	Non-equity minority interests	**236**	238	**–**	–
		297	306	**–**	–
	Total Capital Employed	**2,140**	1,975	**1,638**	1,800

On behalf of the Board
Directors: Sir Dominic Cadbury
D J Kappler

24 February 1999

The accompanying notes are an integral part of the Balance Sheets.

Group Cash Flow Statement for the 52 weeks ended 2 January 1999 (Note 1)

Notes		1998 £m	1997 £m	1996 £m
26	**Cash flow from operating activities**	**686**	719	858
	Dividends received from associates	**12**	14	11
	Returns on investments and servicing of finance			
	Interest paid	**(123)**	(136)	(123)
	Interest received	**63**	71	17
	Dividends paid to minority interests	**(30)**	(27)	(60)
	Dividends paid on Cadbury Schweppes plc Preference Shares	**–**	(1)	(5)
		(90)	(93)	(171)
	Taxation	**(122)**	(112)	(156)
	Capital expenditure and financial investments			
	Purchases of tangible fixed assets	**(157)**	(213)	(262)
	Disposals of tangible fixed assets	**14**	9	6
		(143)	(204)	(256)
	Acquisitions and disposals			
23	Acquisitions of businesses	**(96)**	(95)	(135)
	Expenditure on post-acquisition restructuring	**(4)**	(15)	(18)
	Proceeds from sale of investments, associates and subsidiary undertakings*	**21**	146	–
		(79)	36	(153)
	Dividends paid to ordinary shareholders	**(186)**	(167)	(149)
	Cash inflow/(outflow) before use of liquid resources and financing	**78**	193	(16)
	Management of liquid resources			
	Net change in commercial paper investments	**24**	(235)	–
	Redemption of loan notes*	**278**	180	–
	Net change in bank deposits	**(45)**	(80)	(24)
	Net change in bond investments	**11**	(14)	(5)
	Sale of money market fund	**–**	–	13
	Net change in equity investments	**(4)**	–	–
		264	(149)	(16)
	Financing			
21	Issues of ordinary shares	**31**	33	20
21	Redemption of Preference Shares	**–**	(107)	–
	Issues of shares to minorities in subsidiary undertakings	**–**	5	6
	Proceeds of new borrowings	**129**	433	395
	Borrowings repaid	**(484)**	(402)	(368)
	Proceeds of finance leases	**6**	6	4
	Capital element of finance leases repaid	**(6)**	(6)	(11)
	Net cash (outflow)/inflow from financing	**(324)**	(38)	46
	Increase in cash	**18**	6	14
	Free cash flow			
	Cash inflow/(outflow) before use of liquid resources and financing	**78**	193	(16)
	Add back:			
	Cash flows from acquisitions and disposals	**79**	(36)	153
		157	157	137

*£458m of the proceeds on the disposal of CCSB in 1997 (Note 2) were initially received as loan notes and £15m of borrowings were left in CCSB on disposal; these items are shown in the movement in net borrowings (Note 19) rather than as sale proceeds in the Group Cash Flow Statement. All of the loan notes have now been realised as cash.

Segmental Analysis for the 52 weeks ended 2 January 1999 (Note 1)

1998	Total £m	United Kingdom £m	Europe £m	Americas £m	Pacific Rim £m	Africa and Others £m
Sales						
Beverages	**1,937**	**55**	**346**	**1,250**	**201**	**85**
Confectionery	**2,169**	**948**	**453**	**265**	**304**	**199**
	4,106	**1,003**	**799**	**1,515**	**505**	**284**
Trading Profit (b)						
Beverages	**362**	**(12)**	**38**	**301**	**21**	**14**
Confectionery	**280**	**134**	**23**	**43**	**58**	**22**
	642	**122**	**61**	**344**	**79**	**36**
Operating Assets						
Beverages	**260**	**(38)**	**59**	**172**	**47**	**20**
Confectionery	**1,002**	**366**	**218**	**107**	**178**	**133**
	1,262	**328**	**277**	**279**	**225**	**153**
Trading Margin (b)	%	%	%	%	%	%
Beverages	**18.7**	**(21.8)**	**11.0**	**24.1**	**10.4**	**16.5**
Confectionery	**12.9**	**14.1**	**5.1**	**16.2**	**19.1**	**11.1**
	15.6	**12.2**	**7.6**	**22.7**	**15.6**	**12.7**

1997	Total £m	United Kingdom £m	Europe £m	Americas £m	Pacific Rim £m	Africa and Others £m
Sales (a)						
Beverages	2,000	114	361	1,211	222	92
Confectionery	2,220	955	427	267	351	220
	4,220	1,069	788	1,478	573	312
Trading Profit (a)(b)						
Beverages	346	–	36	277	19	14
Confectionery	282	132	23	41	59	27
	628	132	59	318	78	41
Operating Assets						
Beverages	273	(39)	63	168	55	26
Confectionery	1,041	353	243	106	187	152
	1,314	314	306	274	242	178
Trading Margin (b)	%	%	%	%	%	%
Beverages	17.3	–	10.0	22.9	8.6	15.2
Confectionery	12.7	13.8	5.4	15.4	16.8	12.3
	14.9	12.3	7.5	21.5	13.6	13.1

(a) In 1997, United Kingdom beverages includes sales and trading profit of £47m and £4m relating to discontinued operations
(b) Excluding major restructuring costs of £14m in 1998 and £20m in 1997, and Exceptional items of £68m in 1998 (see Note 3)

Trading profit for beverages and confectionery in the United Kingdom is stated after deducting corporate costs which have been allocated equally. Sales and trading profit by destination and origin are not materially different.

1996	Total £m	United Kingdom £m	Europe £m	Americas £m	Pacific Rim £m	Africa and Others £m
Sales (a)						
Beverages	2,875	952	415	1,194	228	86
Confectionery	2,240	941	464	262	386	187
	5,115	1,893	879	1,456	614	273
Trading Profit (a)(b)						
Beverages	445	113	27	271	20	14
Confectionery	267	118	28	33	67	21
	712	231	55	304	87	35
Operating Assets (a)						
Beverages	469	203	77	95	74	20
Confectionery	1,028	354	251	95	230	98
	1,497	557	328	190	304	118
Trading Margin (b)	%	%	%	%	%	%
Beverages	15.5	11.9	6.5	22.7	8.8	16.3
Confectionery	11.9	12.5	6.0	12.6	17.4	11.2
	13.9	12.2	6.3	20.9	14.2	12.8

(a) United Kingdom beverages includes sales, trading profit and operating assets of £921m, £124m and £214m, respectively, relating to discontinued operations
(b) Excluding major restructuring costs of £41m (see Note 3)

Trading profit for beverages and confectionery in the United Kingdom is stated after deducting corporate costs which have been allocated equally. Sales and trading profit by destination and origin are not materially different.

Supplementary Reportable Segment Information

	1998 £m	1997 £m	1996 £m
Depreciation and amortisation			
Beverages	**42**	41	85
Confectionery	**163**	104	98
	205	145	183
Capital Expenditure			
Beverages	**54**	74	96
Confectionery	**108**	135	153
	162	209	249
Identifiable Assets			
Beverages	**2,633**	2,637	2,750
Confectionery	**1,960**	2,130	1,757
	4,593	4,767	4,507

Corporate assets have been allocated equally to each segment.

Supplementary Geographical Information

	Sales			Fixed Assets	
	1998 £m	1997 £m	1996 £m	**1998 £m**	1997 £m
UK	**1,003**	1,069	1,893	**444**	431
US	**1,100**	1,055	993	**1,595**	1,524
Australia	**402**	450	470	**154**	167
All others	**1,601**	1,646	1,759	**711**	747
	4,106	4,220	5,115	**2,904**	2,869

1 Nature of Operations and Accounting Policies

(a) Nature of operations and segmental results

The Group's operations are managed on the basis of its two industry segments: beverages and confectionery. These segments manufacture, market and distribute branded beverage and confectionery products in over 200 countries. The products are distributed through a wide range of channels and are sold primarily to consumers through grocery stores, smaller retail outlets, vending machines, restaurants and bars. The volume of sales can be affected by seasonal factors, primarily summer weather and festive occasions such as Easter and Christmas.

Significant measures used by management in assessing segment performance include sales, trading profit (before major restructuring costs and exceptional items) and trading margins (before major restructuring costs and exceptional items). The basis of accounting for these measures is UK generally accepted accounting principles. Transactions between reportable segments are not material.

(b) Accounting convention

The financial statements are prepared under the historical cost convention modified for the revaluation of certain land and buildings. The financial statements are prepared in accordance with applicable accounting standards all of which have been applied consistently throughout the year and the preceding year, with the exception of accounting standards adopted in the current year.

The following Financial Reporting Standards (FRS) have been adopted during 1998 in these financial statements: FRS 9 "Associates and Joint Ventures", FRS 10 "Goodwill and Intangible Assets", FRS 11 "Impairment of Fixed Assets and Goodwill", FRS 13 "Derivatives and Other Financial Instruments: Disclosures" and FRS 14 "Earnings Per Share".

The requirements of FRS 9, FRS 10, FRS 11, FRS 13 and FRS 14 are discussed further in the applicable sections below. The adoption of these standards has not resulted in a restatement of prior year results, although the presentation of the financial statements has been amended to comply with the new standards' requirements.

FRS 12 "Provisions, Contingent Liabilities and Contingent Assets" will be adopted for 1999 and is not expected to result in a significant restatement of prior year results.

(c) Financial year

The financial statements are made up to the Saturday nearest to 31 December. Periodically this results in a financial year of 53 weeks. The profit and loss accounts cover the 52 weeks from 4 January 1998 to 2 January 1999, the 53 weeks from 29 December 1996 to 3 January 1998 and the 52 weeks from 31 December 1995 to 28 December 1996. The balance sheets for 1998 and 1997 have been drawn up at 2 January 1999 and 3 January 1998 respectively.

(d) Basis of consolidation

The financial statements are presented in the form of Group accounts and no profit and loss account is presented for Cadbury Schweppes plc itself as the exemption in Section 230 of the Companies Act 1985 applies.

The Group financial statements consolidate the accounts of the parent company and its subsidiary undertakings after eliminating internal transactions and recognising the minority interests in those subsidiary undertakings.

(e) Acquisition or disposal of subsidiary undertakings
Results of subsidiary undertakings acquired during the financial year are included in Group profit from the effective date of control and those of undertakings disposed of up to the effective date of disposal. For this purpose 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.

Prior to 1998, goodwill, being any excess of the consideration over fair value, was written off against reserves on consolidation. Upon disposal of a previously acquired business the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

For the 1998 financial statements, the Group has adopted FRS 10 “Goodwill and Intangible Assets” and FRS 11 “Impairment of Fixed Assets and Goodwill”. Under FRS 10 and FRS 11, acquired goodwill is capitalised and its subsequent measurement (via annual impairment review or an annual amortisation charge) is determined based on the individual circumstances of each business acquired. As allowed by FRS 10’s transitional arrangements, goodwill written off to reserves prior to 1998 has not been recorded on the Balance Sheet.

In accordance with FRS 10 the Group has concluded that goodwill arising in 1998 on its associates, The American Bottling Company (“ABC”) and Amalgamated Beverage Industries Ltd (“ABI”), should not be amortised as it has an indefinite useful economic life. Both of these investments are considered to have indefinite durability that can be demonstrated, and the value of both investments can be readily measured.

ABC operates in a longstanding and profitable market sector; the US soft drinks bottling industry has over 100 years of history. The sector has high market entry barriers due to the nature of licence agreements with soft drink concentrate owners (including the Group’s subsidiary Dr Pepper/Seven Up, Inc. (“DPSU”)) and the capital required to operate as a bottler and distributor. As an associate, the company is managed separately from the Group and can be valued on a discounted cash flow basis.

ABI operates in the South African soft drinks bottling industry with similar high market entry barriers and has valuable licence agreements (including with the Group’s subsidiary, Cadbury Schweppes (South Africa) Ltd) which give it market leadership in significant regions of the country, including Johannesburg. ABI is a listed company and the value of the Group’s investment can be determined by reference to the share price.

The Group has not amortised this goodwill, a departure from the Companies Act 1985 Paragraph 21 of Schedule 4, for the over-riding purpose of giving a true and fair view of the Group’s results, for the reasons outlined above. If the goodwill arising on ABC and ABI had been amortised over a period of 20 years, operating profit and investment in associates would have decreased by £5m in 1998.

(f) Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the end of the financial year except when covered by an open foreign exchange contract in which case the rate of exchange specified in the contract is used.

Differences on exchange arising from the translation of both the opening balance sheets of overseas subsidiary undertakings (date of control in case of acquisition during the year) and foreign currency borrowings used to finance or hedge long term foreign investments are taken directly to reserves. All other profits and losses on exchange are credited or charged to operating profit.

The results of overseas undertakings are translated into sterling at average rates. The exchange differences arising as a result of re-stating retained profits to closing rates are dealt with as movements on reserves.

1 Nature of Operations and Accounting Policies continued

(g) Turnover

This represents the invoiced value of sales (net of trade discounts) and royalties excluding inter-company sales, value added tax and sales taxes.

(h) Research and development expenditure

Expenditure is written off in the financial year in which it is incurred.

(i) Earnings per Ordinary Share

The Group has adopted FRS 14 "Earnings Per Share" for the 1998 financial statements and presentation of earnings per share for prior periods has been amended to comply with this new standard. Basic Earnings per Ordinary Share is calculated by dividing the profit on ordinary activities after taxation, minority interests and preference dividends by the weighted average number of shares in issue during the year. Diluted EPS is calculated by dividing profit on ordinary activities after taxation, minority interests and preference dividends by the weighted average number of shares in issue during the year increased by the effects of all dilutive potential ordinary shares (primarily share options).

Underlying EPS represents Basic EPS, adjusted to exclude exceptional items and gains and losses on disposals of subsidiaries and investments.

(j) Taxation

Credit is taken for advance corporation tax paid to the extent that it is recoverable against the liability to corporation tax in the foreseeable future.

Deferred taxation recoverable is recognised on long term timing differences arising from provisions for pensions and other post-retirement benefits. Deferred taxation recoverable is also recognised in respect of losses where recovery of the taxation is reasonably certain. Provision is made for deferred taxation, using the liability method, on other timing differences to the extent that these amounts are regarded as likely to become payable in the foreseeable future.

The principal categories of timing differences are:

- the excess of book value of fixed assets over their tax written down value;
- income and expenditure in the financial statements of the current year dealt with in other years for taxation purposes; and
- revaluation surpluses in respect of projected property sales on the assumption that the properties are sold at the revalued amounts.

(k) Stocks

Stocks are valued 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. In the case of cocoa, cost also reflects the use of the futures market on the basis of forecast physical requirements.

(l) Tangible fixed assets

Depreciation is charged on the original cost or subsequent valuation of assets (excluding freehold land and assets in course of construction). The principal rates, using the straight line method, are as follows:

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

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

In specific cases higher depreciation rates are used e.g. high speed machinery, machinery subject to technological changes or any machinery with a high obsolescence factor. The rates used overseas are not materially different from the rates used above, but they vary according to local conditions and requirements.

Interest costs incurred in funding major capital construction programmes are capitalised during the construction period and depreciated over the life of the related asset.

(m) Fixed assets held under leases

Where assets are financed by leasing agreements that give rights approximating to ownership ("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. Depreciation on leased assets is charged to the profit and loss account on the same basis as shown above. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account. All other leases are "operating leases" and the relevant annual rentals are charged wholly to the profit and loss account.

(n) Revaluation of properties

Freehold and leasehold properties are revalued every five years. Any overall surplus over book value is credited to the revaluation reserve and any overall deficit below historical cost is charged to the profit and loss account in the year of revaluation. In subsequent years transfers are made to retained profits in order to amortise surpluses over the remaining useful lives of the properties. On disposal the profit or loss is calculated by reference to the net book value and any unamortised revaluation surplus is transferred from revaluation reserves to retained profits.

(o) Intangibles

Intangibles represent significant owned brands acquired since 1985 valued at historical cost. No amortisation is charged as the annual results reflect significant expenditure in support of these brands. For the 1998 financial statements, the Group has adopted FRS 10 "Goodwill and Intangible Assets" and FRS 11 "Impairment of Fixed Assets and Goodwill". As permitted by FRS 10 and FRS 11, the Group will continue its policy of capitalising acquired intangible assets (brands) and reviewing the carrying values on an annual basis for any impairment in value.

(p) Associated undertakings

For the 1998 financial statements the Group has adopted FRS 9 "Associates and Joint Ventures". FRS 9 revises accounting and disclosure requirements for associates and joint ventures. The presentation of profit and loss accounts and cash flow statements for the prior periods has been amended to comply with this new standard.

In accordance with FRS 9, all companies where the Group exercises significant influence, normally by board representation and/or ownership of 20% of the voting rights on a long term basis, are treated as associated undertakings. The value of associated undertakings reflects the Group's share of the net assets of the companies concerned. The Group's share of the profit before tax of associated undertakings is included in the Group Profit and Loss Account. All associated undertakings have financial years which are coterminous with the Group's, with the exception of Camelot Group plc ("Camelot") and ABI whose financial years each end in March. The Group's share of the profits of Camelot and ABI are based on their most recent published unaudited financial statements to 30 September.

1 Nature of Operations and Accounting Policies continued

(q) Pensions

The costs of providing pensions and other post-retirement benefits are charged to the profit and loss account on a consistent basis over the service lives of employees. Such costs are calculated by reference to actuarial valuations and variations from such regular costs are spread over the remaining service lives of the current employees. To the extent to which such costs do not equate with cash contributions a provision or prepayment is recognised in the balance sheet.

(r) Liquid resources

Liquid resources are defined as current asset investments which are readily convertible into known amounts of cash without curtailing or disrupting the business, primarily bank deposits, commercial paper and bond investments.

(s) Financial instruments

The Group has adopted FRS 13 "Derivatives and Other Financial Instruments: Disclosures" in the 1998 financial statements. This standard requires disclosures that provide information about the management of financial instruments and their impact on the Group's risk profile, performance and financial condition. These disclosures are included below and in Note 20.

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 amounts of those assets or liabilities and are ultimately recognised in the profit and loss account 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 are recognised as other income or expense.

(t) Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

2 Profit on sale of subsidiaries and investments

The profit on sale of subsidiaries and investments in 1998 arose principally on the partial disposal of the Group's investment in ITNET plc and on the deemed disposal of a share of the Group's interest in ABI resulting from a rights issue by ABI which was not subscribed to by the Group.

In February 1997, the Group disposed of its 51% share in Amalgamated Beverages Great Britain Ltd, the parent company of Coca-Cola & Schweppes Beverages Ltd ("CCSB") for £623m, including dividend payments of £140m. In 1997 the Group disposed of its wholly-owned subsidiary Sodastream Ltd, a UK based manufacturer of equipment for carbonated soft drinks made in the home, and Hulley & Rice, a speciality food manufacturer in the Group's Bromor Foods division in South Africa. Additionally, as a result of an actuarial review performed during 1997, it was determined that additional provisions were required for retired employees of a business previously disposed of by the Group. An analysis of these items follows:

	CCSB £m	Other £m	Total £m
Profit/(loss) on disposal before goodwill adjustments	458	(4)	454
Goodwill arising on original purchase	(16)	(26)	(42)
Net profit/(loss) on disposal before taxation	442	(30)	412

The operating results of CCSB have been separately reported as discontinued operations in the profit and loss accounts for 1997 and 1996. Results of the discontinued operations were as follows:

	1997 £m	1996 £m
Turnover	47	921
Costs and expenses	(44)	(803)
Profit before taxes	3	118
Taxes on profit	(1)	(43)
Equity minority interest	(1)	(37)
Profit from discontinued operations	1	38
Profit on disposal of discontinued operations, net of tax	347	–
	348	38

2 Profit on sale of subsidiaries and investments continued

The cash flows resulting from CCSB's operations included in the Group Cash Flow Statement are as follows:

	1997 £m	1996 £m
Cash flow from operating activities		
Trading profit	4	124
Depreciation	3	36
Other non-cash items and changes in working capital	(19)	16
	(12)	176
Returns on investment and servicing of finance		
Net interest paid	–	(7)
Minority dividend paid	–	(33)
	–	(40)
Taxation	–	(70)
Capital expenditure	(1)	(41)
Cash flow before use of liquid resources and financing	(13)	25

The balance sheet amounts, contribution to profits and cash flows for the other businesses disposed of in 1998 and 1997 are not material.

3 Operating costs

(a) Operating costs are analysed as follows:

	Existing businesses £m	Discontinued operations £m	**Total £m**
1998*			
Cost of sales	**2,122**	**–**	**2,122**
Distribution costs, including marketing	**1,067**	**–**	**1,067**
Administration expenses	**343**	**–**	**343**
Major restructuring costs (see (c) below)	**14**	**–**	**14**
	3,546	**–**	**3,546**
1997			
Cost of sales	2,005	32	2,037
Distribution costs, including marketing	1,107	9	1,116
Administration expenses	437	2	439
Major restructuring costs (see (c) below)	20	–	20
	3,569	43	3,612
1996			
Cost of sales	2,105	607	2,712
Distribution costs, including marketing	1,082	159	1,241
Administration expenses	419	31	450
Major restructuring costs (see (c) below)	41	–	41
	3,647	797	4,444

*Exceptional items have been allocated to the appropriate captions.

(b) Profit on ordinary activities before taxation is after charging:

	1998 £m	1997 £m	1996 £m
Depreciation on owned assets	**196**	136	165
Depreciation on assets under finance leases	**9**	9	18
Auditors' remuneration			
– audit fees	**2**	2	2
– other services	**1**	1	1
Research and development costs	**26**	22	21
Maintenance and repairs	**53**	59	75
Advertising	**354**	345	317

The audit fees include £0.2m (1997 and 1996: £0.2m) in respect of the parent company.

(c) Major restructuring costs

The 1998 results include £14m in expenditure on major restructuring activities. These restructuring costs were incurred in the Confectionery stream and include £9m for rationalisation in the UK confectionery operations (of which £5m represents asset write downs), £3m for consolidating aspects of the French confectionery businesses and £2m for a plant closure in South Africa. The Group's share of operating profit in associates also includes £5 million representing the Group's share of restructuring costs from ABC, as this company rationalised manufacturing facilities to improve efficiency.

The 1997 results include £20m of restructuring costs, including £11m for streamlining manufacturing and distribution arrangements in the Confectionery stream, mainly in the British Isles, and £9m for rationalising sales, administration and manufacturing in the Beverages stream, mainly within the Americas region. The 1996 results include £36m of restructuring costs relating to the establishment of a soft drinks manufacturing associated undertaking in France (including £24m of asset writedowns) and £5m of acquisition related restructuring costs.

(d) Exceptional items

Exceptional items represent fixed asset impairments and working capital losses resulting from the economic crisis which occurred in Russia during the second half of 1998. As a result of this crisis, in accordance with FRS 11, an impairment review of the Russian fixed assets was performed and a write down has been made to reflect the estimated net realisable value of these fixed assets. Additionally, the economic situation resulted in certain debtors and stocks becoming irrecoverable primarily in the Group's Russian and other European subsidiaries. These working capital losses have also been included in the total Exceptional Items amount in the Group Profit and Loss Account.

4 Employees and emoluments

	1998 £m	1997 £m	1996 £m
Emoluments of employees, including directors, comprised:			
Wages and salaries	**599**	580	670
Social security costs	**62**	68	83
Other pension costs	**28**	26	34
	689	674	787

A geographical analysis of the number of employees is given in the Description of Business on page 27.

5 Directors' Remuneration

The information required by the Companies Act 1985 and the London Stock Exchange Listing Rules is contained on pages 71 to 73 in the Report of the Directors.

6 Net interest

	1998 £m	1997 £m	1996 £m
Bank and other loans not wholly repayable within five years	**13**	7	35
Bank and other loans wholly repayable within five years	**100**	102	80
Commercial paper	**6**	10	16
Finance leases	**3**	3	4
Bank overdrafts and other short term borrowings	**4**	4	6
	126	126	141
Less: Interest capitalised (see Note 11)	**(2)**	(2)	(2)
Less: Interest on short term investments	**(72)**	(59)	(29)
Net interest arising in Group Companies	**52**	65	110
Share of net interest arising in associates	**5**	(1)	–
	57	64	110

7 Tax on Profit on Ordinary Activities

	1998 £m	1997 £m	1996 £m
UK:			
Corporation tax at 31% (1997: 31.5%; 1996: 33%)	**49**	68	98
Double tax relief	**(39)**	(41)	(28)
Deferred tax (see Notes 16 and 17)	**30**	119	10
Associated undertaking	**7**	5	5
	47	151	85
Overseas:			
Tax payable (including withholding taxes)	**102**	72	75
Deferred tax (see Notes 16 and 17)	**39**	43	29
Associated undertakings	**4**	3	4
	145	118	108
Over provision in previous years			
– current tax	**(5)**	(6)	(6)
– deferred tax (see Notes 16 and 17)	**(4)**	(2)	(7)
	183	261	180

The charge of £183m (1997: £261m; 1996: £180m) has been decreased by £14m (1997: £4m increase; 1996: £3m increase) in respect of tax at the current year's rate on timing differences for which deferred tax has not been provided. No tax relief is expected to be available on the Exceptional items recorded in 1998 (see Note 3(d)). The French restructuring costs in 1996 (see Note 3(c)) included £24m of asset writedowns which did not involve any cash outflow and for which no tax relief was available.

The table below relates the UK Corporation Tax rate applicable in each year to the effective rate obtained by computing the tax charge as a percentage of profit before tax.

	1998 %	1997 %	1996 %
UK Corporation Tax rate	**31.0**	31.5	33.0
(Shortfall)/excess of book depreciation over tax depreciation	**–**	(0.3)	1.0
Relief for stocks and investment incentives	**(2.9)**	(0.6)	(0.2)
Capital items not subject to tax	**(0.3)**	(4.3)	(0.3)
Non-deductible expenses	**1.9**	0.7	–
Amortisation of intangibles	**(1.3)**	(0.9)	(0.8)
Losses of current year not relieved	**4.2**	1.1	2.0
Losses of current and previous years now relieved	**(1.5)**	(0.1)	(0.5)
Differences in overseas tax rates	**1.0**	(0.5)	(1.5)
Over provisions in prior years	**(1.6)**	(0.8)	(2.2)
Other	**1.1**	0.6	(0.1)
Tax charge as a percentage of profit before tax	**31.6**	26.4	30.4

8 Dividends

	1998 £m	1997 £m	1996 £m
Ordinary Shares			
– interim 5.8p per share paid (1997: 5.5p; 1996: 5.2p)	**59**	55	53
– final 13.2p per share proposed (1997: 12.5p; 1996: 11.8p)	**135**	127	118
Preference shares (see Note 21(e))	**–**	1	5
	194	183	176

The interim dividend was paid on 20 November 1998.

9 Earnings per Ordinary Share

(a) Basic EPS is calculated on the weighted average of 1,015 million shares (1997: 1,006 million shares; 1996: 996 million shares) in issue during the year.
(b) The reconciliation between Basic EPS and Underlying EPS, and between the earnings figures used in calculating them, is as follows:

	EPS			Earnings		
	1998 pence	1997 pence	1996 pence	**1998 £m**	1997 £m	1996 £m
Earnings	**35.0**	68.7	34.1	**355**	691	340
Adjust for:						
Exceptional items	**6.7**	–	–	**68**	–	–
Profit on sale of subsidiaries and investments, net of tax and minority interests	**(2.3)**	(31.5)	–	**(23)**	(317)	–
Underlying earnings	**39.4**	37.2	34.1	**400**	374	340

(c) Diluted EPS has been calculated based on the Basic EPS Earnings amount above.
A reconciliation between the shares used in calculating Basic and Diluted EPS is as follows:

	1998 £m	1997 £m	1996 £m
Average shares used in Basic EPS calculation	**1,015**	1,006	996
Dilutive share options outstanding	**15**	10	9
Shares used in Diluted EPS calculation	**1,030**	1,016	1,005

Share options not included in the diluted calculation because they were anti-dilutive in the period totalled 4.2 million in 1998 (1997: 4.6 million; 1996: 5.5 million).

10 Intangible Assets and Goodwill

	1998 £m	1997 £m
Cost at beginning of year	**1,575**	1,547
Exchange rate adjustments	**(14)**	28
Goodwill arising on acquisition of subsidiaries	**46**	–
	1,607	1,575

Goodwill arising on the acquisition of associated undertakings is included in Investments in associates on the Balance Sheet (see Note 12).

11 Tangible Fixed Assets

(a) The movements in tangible fixed assets were as follows:

	Group			Company	
	Land and buildings £m	Plant and equipment £m	Assets in course of construction £m	Land and buildings £m	Plant and equipment £m
Cost or Valuation					
At beginning of year	411	1,535	125	7	16
Exchange rate adjustments	(11)	(29)	(3)	–	–
Additions	28	64	70	–	5
Transfers on completion	10	118	(128)	–	–
Disposals	(8)	(72)	(6)	–	(2)
Fixed asset revaluation adjustment	(5)	–	–	–	–
At end of year	425	1,616	58	7	19
Depreciation					
At beginning of year	(27)	(823)	–	(1)	(6)
Exchange rate adjustments	–	10	–	–	–
Depreciation for year	(32)	(173)	–	–	–
Disposals	1	71	–	–	–
At end of year	(58)	(915)	–	(1)	(6)
Net book value at beginning of year	384	712	125	6	10
Net book value at end of year	367	701	58	6	13

Depreciation charge for the year includes the Exceptional write down of assets in the Group's Russian operations (see Note 3(d)). Additions to assets in course of construction include interest capitalised in the year of £2m (1997: £2m). Cumulative interest capitalised on capital borrowed to fund construction is £11m (1997: £9m). The value of land not depreciated is £97m (1997: £103m).

(b) Finance Leases

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

	1998 £m	1997 £m
Cost	**97**	102
Less: Accumulated depreciation	**(72)**	(63)
	25	39

(c) Land and buildings are comprised as follows:

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Analysis of net book value:				
Freehold	**325**	338	**3**	4
Long leasehold	**24**	32	**3**	2
Short leasehold	**18**	14	**–**	–
	367	384	**6**	6
Analysis of gross value:				
At 1995 valuation				
– Existing use	**305**	309	**7**	7
– Alternative use	**1**	3	**–**	–
At cost	**119**	99	**–**	–
	425	411	**7**	7

The Group properties were professionally revalued at 30 September 1995. If the revalued assets were stated on a historical basis, the amounts would be as follows:

	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Land and buildings at cost	**217**	266	**6**	6
Accumulated depreciation thereon	**(51)**	(69)	**(1)**	(1)
	166	197	**5**	5
Depreciation charge for the year	**6**	7	**–**	–

(d) Capital Commitments

Commitments for capital expenditure contracted for but not provided in the Group financial statements at the end of the year were £16m in 1998 and £20m in 1997 (nil for the Company in both years).

12 Investments

(a) Analysis

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Shares in associated undertakings				
– Listed overseas	**40**	25	**–**	–
– Unlisted	**117**	47	**11**	11
Loans to associated undertakings	**13**	–	**–**	–
Investments in associates	**170**	72	**11**	11
Shares in subsidiary undertakings	**–**	–	**541**	525
Loans to subsidiary undertakings	**–**	–	**3,071**	3,629
Other unlisted investments other than loans	**1**	1	**–**	–
Investments	**1**	1	**3,612**	4,154

Details of the principal subsidiary and associated undertakings are set out in Note 30.

(b) The movements during the year of investments in associated undertakings in the Group Balance Sheet were as follows:

	Listed overseas £m	Unlisted £m
Cost at beginning of year	8	34
Exchange rate adjustments	(1)	1
Additions	1	79
Disposals	–	(5)
Cost at end of year	8	109
Share of reserves at beginning of year	17	13
Exchange rate adjustments	(5)	–
Share of profits after tax	7	15
Dividends received (1997: £14m)	(1)	(11)
Disposals	14	(9)
Share of reserves at end of year	32	8
Net book value at beginning of year	25	47
Net book value at end of year	40	117
Market value of listed investments (1997: £131m)	112	–
Tax liability if sold at this value	6	–

The net book value of associated undertakings is represented by the Group share of net assets.

During 1998, the Group invested £77m to acquire 39.3% of the equity of The American Bottling Company ("ABC"), a soft drinks bottling business in the US. This investment is accounted for as an associate in accordance with FRS 9. Goodwill arising on this acquisition was £140m. As part of this transaction, the Group has also advanced £12m in loan capital to ABC. The contribution from ABC to the Group's profit before taxation in the period was not material.

The Group's investment in Camelot, the UK National Lottery Operator, is included in unlisted associated undertakings.

(c) Additional associated undertaking disclosures

The Group's share in its associated undertakings selected profit and loss and balance sheet items is as follows:

	1998 £m	1997 £m
Turnover	**1,616**	1,267
Fixed assets	**80**	59
Current assets	**184**	141
Liabilities due within one year	**(150)**	(114)
Liabilities due after one year	**(123)**	(16)

The Group's share in selected profit and loss and balance sheet items for its associated undertaking Camelot is as follows:

	1998 £m	1997 £m
Turnover	**1,337**	1,144
Profit before tax	**19**	16
Tax	**(7)**	(5)
Profit after tax	**12**	11
Fixed assets	**17**	18
Current assets	**111**	95
Liabilities less than one year	**(94)**	(82)
Liabilities greater than one year	**(8)**	(5)

Share of operating profit in associates by stream is as follows:

	1998 £m	1997 £m	1996 £m
Beverages	**25**	19	19
Confectionery	**13**	12	12
Total	**38**	31	31

During the year the Group purchased packaging materials from, and paid bottling fees to, L'Européenne D'Embouteillage SNC totalling £43m, and sold beverages concentrate totalling £71m to ABC.

Goodwill included in the carrying value of associates is £166m.

12 Investments continued

(d) The movements during the year of investments held by the Company were as follows:

	Shares subsidiary undertakings £m	Loans subsidiary undertakings £m	Shares associated undertakings £m
Cost less amount written off at beginning of year	525	3,629	11
Additions/(net repayments)	16	(558)	–
Cost less amount written off at end of year	541	3,071	11

13 Stocks

	Group	
	1998 £m	1997 £m
Raw materials and consumables	**149**	153
Work in progress	**33**	35
Finished goods and goods for resale	**227**	231
	409	419

14 Debtors

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Trade debtors	**560**	522	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**23**	96
Amounts owed by associated undertakings	**5**	3	**–**	–
Tax recoverable within one year	**15**	22	**1**	6
Advance corporation tax recoverable				
– within one year	**21**	38	**18**	–
– after more than one year	**–**	8	**–**	8
Other debtors				
– receivable within one year	**68**	55	**10**	4
– receivable after more than one year	**19**	10	–	–
Prepayments and accrued income	**72**	53	**2**	2
Deferred tax recoverable after more than one year	**–**	–	**6**	–
	760	711	**60**	116

Amounts are receivable within one year unless otherwise indicated.

The movement on allowance for doubtful accounts is as follows:

	1998 £m	1997 £m	1996 £m
Balance at beginning of year	**26**	26	27
Exchange adjustments	**–**	(2)	(3)
Charged to profit and loss	**9**	8	8
Utilised	**(4)**	(6)	(6)
Balance at end of year	**31**	26	26

15 Creditors other than borrowings

	1998		1997	
	Amounts due within one year **£m**	Amounts due after one year **£m**	Amounts due within one year £m	Amounts due after one year £m
Group				
Trade creditors	**213**	**–**	224	–
Payments on account	**12**	**–**	15	–
Bills of exchange	**9**	**–**	8	–
Tax on profit	**166**	**32**	75	8
Advance corporation tax	**10**	**–**	36	–
Other taxes and social security costs	**74**	**–**	75	–
Accruals and deferred income	**395**	**–**	443	–
Government grants	**1**	**3**	1	5
Other creditors	**197**	**17**	74	30
Proposed dividends				
– to ordinary shareholders	**135**	**–**	127	–
– to minorities	**5**	**–**	6	–
	1,217	**52**	1,084	43
Company				
Amounts owed to subsidiary undertakings	**6**	**–**	15	–
Tax on profit	**96**	**–**	–	–
Advance corporation tax	**10**	**–**	8	–
Accruals and deferred income	**10**	**–**	16	–
Other creditors	**29**	**–**	13	–
Proposed dividend to ordinary shareholders	**135**	**–**	127	–
	286	**–**	179	–

16 Provisions for Liabilities and Charges

	Group				Company
	Deferred taxation £m	Retirement benefits £m	Restructuring £m	Total £m	£m
At beginning of year	150	70	28	248	101
Exchange rate adjustments	–	(2)	–	(2)	–
Expenditure in the year	–	(14)	(30)	(44)	–
Profit and loss account	65	13	14	92	(6)
Transfer to current tax	(136)	–	–	(136)	(100)
Reclassification to debtors	–	–	–	–	6
At end of year	79	67	12	158	1

A further analysis of the Group and Company deferred taxation provision is given in Note 17. The provisions for retirement benefits primarily relates to pension schemes, details of which are given in Note 18.

The charge to the profit and loss account in the year for restructuring is explained in Note 3. The restructuring expenditure in the year includes £11m in respect of restructuring charges recorded in 1998 and £19m in respect of restructuring charges recorded in prior years. Substantially all of the restructuring provision at the end of the year is expected to result in cash expenditure in 1999.

Company provisions include retirement benefits and, at the beginning of the year, deferred taxation, details of which are given in Note 17.

17 Deferred Taxation

The analysis of the deferred tax liabilities/(assets) included in the financial statements at the end of the year is as follows:

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Accelerated capital allowances	**2**	4	**–**	–
Profit on sale of subsidiaries	**–**	95	**–**	100
Unutilised tax losses	**(6)**	–	**–**	–
Other timing differences	**83**	51	**(6)**	–
	79	150	**(6)**	100

The Group deferred taxation liability is included in provisions for liabilities and charges (see Note 16). Gross deferred tax assets at year end are £27m (1997: £25m). The Company deferred tax asset is included in debtors (see Note 14).

The potential liability for deferred taxation not provided comprised:

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
UK accelerated capital allowances	**50**	39	**2**	1
UK property valuations	**5**	6	**1**	1
Other timing differences	**29**	30	**–**	–
	84	75	**3**	2

To the extent that dividends from overseas undertakings are expected to result in additional taxes, appropriate amounts have been provided. No taxes have been provided for other unremitted earnings since these amounts are considered permanently reinvested by subsidiary undertakings and in the case of associated undertakings the taxes would not be material. Distributable earnings retained by overseas subsidiary undertakings and the principal associated undertakings totalled approximately £538m at 2 January 1999. The remittance of these amounts would incur tax at substantially lower than normal rates after giving effect to foreign tax credits.

Tax losses carried forward as at 2 January 1999 for offset against future earnings of overseas companies were approximately £111 million (1997: £171 million). The utilisation of losses is dependent upon the level of future earnings and other limiting factors within the countries concerned. Tax losses totalling £27 million have expiration periods in 1999 and 2000, tax losses of £33 million expire in 2001–2006, tax losses of £2 million expire in 2007–2011 and tax losses totalling £49 million have no expiry date.

The US GAAP analysis of the deferred tax liability is as follows:

	1998 £m	1997 £m
Liabilities		
Fixed asset timing differences	**84**	77
Profit on sale of subsidiaries	**–**	95
Other timing differences	**85**	56
	169	228
Assets		
Operating losses carried forward	**(40)**	(61)
Less: Valuation allowance	**34**	61
	(6)	–
Net deferred tax liability	**163**	228

18 Pension Arrangements and other Post-Retirement Benefits

The Group has various pension schemes throughout the world and these cover a significant proportion of the current employees. The principal schemes are of the defined benefit type, with benefits accruing based on final 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. Costs are normally spread as a percentage of payroll.

(a) UK GAAP

The major scheme is the Cadbury Schweppes Pension Fund in the UK for which the last full valuation was carried out as at 5 April 1996 on the projected unit method when the market value of the assets was £990m. The level of funding on the assumptions shown below was 110%.

The principal long term assumptions used for the purposes of the actuarial valuation were as follows:

Rate of return on new investments	8.5%
Earnings increases	6.0%
Pensions increases	4.0%
Growth of dividends	4.0%

Credit for the estimated surplus has been spread over the remaining service lives of the existing employees and consequently the net contribution rate on the accruals basis is 7.0% of pensionable payroll. A provision of £16m (1997: £18m) included in the balance sheet represents the excess of pension costs over the amounts actually contributed. The dates of the latest actuarial reviews of the main schemes for the principal overseas subsidiaries were: Ireland 5 April 1997, US 1 January 1998, Australia 30 June 1997 and South Africa 31 December 1997. The aggregate market value of these schemes at the relevant review dates was approximately £253m.

The total pension cost for the year was £28m (1997: £26m; 1996: £34m), of which £12m (1997: £11m; 1996: £17m) related to the UK fund and £12m (1997: £12m; 1996: £13m) to the above mentioned principal overseas funds.

18 Pension Arrangements and other Post-Retirement Benefits continued

(b) US GAAP

The major plans are reviewed in accordance with Statement of Financial Accounting Standard ("SFAS") No. 87 annually and the disclosures below have been presented in accordance with SFAS 132. The net periodic pension cost for the major plans under SFAS No. 87 was made up as follows:

	1998 £m	1997 £m	1996 £m
Service cost	**33**	36	38
Interest cost	**80**	94	90
Expected return on assets	**(97)**	(102)	(95)
Net amortisation and deferral	**(10)**	(2)	(2)
Gain on settlement	**–**	(13)	–
	6	13	31

The gain on settlement in 1997 primarily resulted from the disposal of CCSB (Note 2). Employees of CCSB transferred their benefits from the Company's UK plan to new arrangements and the Company has no further liability with regard to such employees. Subsequent to the transfers, the UK plan remains satisfactorily funded.

The weighted average assumptions used were as follows:

	1998 %	1997 %	1996 %
Discount rate	**7.1**	8.0	8.0
Long term rate of return on assets	**7.9**	8.6	8.7
Earnings increase	**5.0**	5.9	5.9

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

	1998 £m	1997 £m
Benefit Obligation		
At beginning of year	**1,141**	1,198
Exchange rate adjustments	**(4)**	(17)
Service cost	**33**	36
Interest cost	**80**	94
Actuarial loss/(gain)	**74**	(35)
Benefits paid	**(64)**	(64)
Employee contributions	**8**	10
Disposals	**–**	(81)
At end of year	**1,268**	1,141
Plan Assets		
At beginning of year	**1,398**	1,291
Exchange rate adjustments	**(3)**	(24)
Actual return on plan assets	**54**	254
Employer contributions	**16**	22
Employee contributions	**13**	13
Benefits paid	**(64)**	(64)
Disposals	**–**	(94)
At end of year	**1,414**	1,398
Funded status	**146**	257
Unrecognised prior service cost	**2**	2
Unrecognised transition amount	**1**	(1)
Unrecognised net actuarial loss	**(219)**	(343)
Accrued benefit	**(70)**	(85)

(c) Other Post-Retirement Benefits

The Group provides certain post-retirement health care benefit coverage to substantially all US employees retiring on or after attaining age 55 (with at least 15 years of service) or age 65 (with at least 5 years of service). These benefits are limited to eligible expenses and are subject to deductibles, co-payment provisions and lifetime caps on coverage. At age 65 each retiree and eligible covered dependant has a lifetime cap of US$25,000. If an employee chooses early retirement, there is a US$25,000 cap from the early retirement date to age 65, at which time a new US$25,000 cap is provided. The Group may periodically amend or change the plan under which these benefits are paid.

In South Africa retirees participate in various external medical care schemes which provide defined levels of benefits. The Group's local subsidiary currently contributes towards the premiums payable on behalf of the retirees in accordance with the general practice of employers in South Africa. These contributions are paid only for retirees who were members of such medical care schemes before retirement.

The cost of these other post-retirement benefits and the outstanding liabilities are not material for the Group as a whole.

19 Borrowings

(a) Net borrowings

	1998 £m	1997 £m
Net cash		
– cash at bank and in hand	**104**	86
– bank overdrafts	**(45)**	(45)
	59	41
Liquid resources	**416**	682
Other short term borrowings	**(482)**	(699)
Long term borrowings	**(499)**	(673)
	(506)	(649)

(b) Reconciliation of net debt

	Total net borrowings £m	Net cash £m	Liquid resources £m	Borrowings £m
At 30 December 1995	**(1,344)**	24	64	(1,432)
Cash flow for the year	**10**	14	16	(20)
Exchange rate adjustments	**107**	2	(5)	110
At 28 December 1996	**(1,227)**	40	75	(1,342)
Cash flow for the year	**124**	6	149	(31)
Borrowings assumed at acquisition	**(19)**	–	–	(19)
Borrowings transferred at disposal	**15**	–	–	15
CCSB disposal – loan note consideration (Note 2)	**458**	–	458	–
Exchange rate adjustments	**–**	(5)	–	5
At 3 January 1998	**(649)**	41	682	(1,372)
Cash flow for the year	**109**	18	(264)	355
Exchange rate adjustments	**34**	–	(2)	36
At 2 January 1999	**(506)**	59	416	(981)

19 Borrowings continued

(c) Detailed Analysis of Borrowings

	1998		1997	
	Amounts due within one year £m	Amounts due after one year £m	Amounts due within one year £m	Amounts due after one year £m
Group				
Secured				
Bank overdrafts	**2**	**–**	3	–
Other loans	**1**	**–**	4	3
European Bank for Reconstruction and Development Loan	**3**	**38**	–	40
Unsecured				
Floating Rate Notes 1998	**–**	**–**	250	–
5.875% Notes 1998 (US$200m)	**–**	**–**	122	–
8.5% Guaranteed Notes 1999 (A$75m)	**28**	**–**	–	30
6.25% Notes 1999 (US$300m)	**181**	**–**	–	182
8% Notes 2000 (£150m)	**–**	**142**	–	144
5.125% Guaranteed Notes 2001 (DM300m)	**–**	**109**	–	119
Obligations under perpetual loan (FFr 743m)	**9**	**71**	8	75
Obligations under fixed rate notes	**18**	**26**	17	44
Commercial paper (C$141m)	**55**	**–**	96	–
Master notes (US$250m)	**151**	**–**	152	–
Bank loans in foreign currencies	**24**	**8**	39	10
Bank overdrafts	**43**	**–**	41	–
Other loans	**5**	**84**	4	3
Obligations under finance leases (see Note 24)	**6**	**21**	6	23
Acceptance credits	**1**	**–**	2	–
	527	**499**	744	673
Company				
Unsecured				
5.875% Notes 1998 (US$200m)	**–**	**–**	122	–
6.25% Notes 1999 (US$300m)	**181**	**–**	–	182
8% Notes 2000 (£150m)	**–**	**142**	–	144
Loans from subsidiary undertakings	**744**	**708**	1,312	553
Bank overdraft	**1**	**–**	1	–
Other loans	**1**	**–**	1	–
	927	**850**	1,436	879

The Group's borrowings limit at 2 January 1999 calculated in accordance with the Articles of Association was £8,927m. The lowest limit to which it is subject under its borrowing facilities is £3,310m.

The security for the borrowings shown above as secured is by way of charges on the properties of the Group companies concerned. At 2 January 1999, the book value of assets pledged as collateral for secured loans was £43m (1997: £87m). Borrowings include £41m (1997: £50m) which are secured by means of fixed charges on property of overseas subsidiaries.

The 8% Notes 2000 have a principal amount of £150m which has been swapped into US$236m and are presented at the swapped value. Similarly, the 5.125% Guaranteed Notes 2001 have a principal amount of DM300m and have been presented at their swapped value of C$279m.

The obligations under the perpetual loan represent the present value of the future interest payments on the principal amount of FFr1,600m which terminate in 2005; the interest rate is variable based on the Paris Inter-Bank Offered Rate. The obligations under the fixed rate notes represent the present value of future interest payments on £200m of 12.55% Eurobonds up to 2001; the principal of the bonds and subsequent interest coupons have been acquired by a Group company.

A subsidiary of the Group has borrowed £593m which is guaranteed by letters of credit. These letters of credit are backed by security over certain assets of another subsidiary of the Group. The lender's sole recourse under this arrangement is to the letters of credit. The financing has been accounted for as a fully offsetting arrangement in the Group Balance Sheet and the Notes to the Financial Statements and meet the criteria for offset in accordance with FRS 5.

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 was 5.4% (1997: 6.3%).

(d) Maturities of Borrowings

Repayments fall due in the following periods:

								Group
	Bank loans and overdrafts		Finance leases		Other borrowings		Total	
	1998 £m	1997 £m	**1998 £m**	1997 £m	**1998 £m**	1997 £m	**1998 £m**	1997 £m
Within one year or on demand	**82**	93	**6**	6	**439**	645	**527**	744
Between one and two years	**22**	14	**6**	5	**163**	234	**191**	253
Between two and three years	**22**	5	**4**	5	**161**	171	**187**	181
Between three and four years	**16**	41	**5**	4	**37**	107	**58**	152
Between four and five years	**32**	13	**3**	4	**–**	–	**35**	17
After five years	**25**	65	**3**	5	**–**	–	**28**	70
	199	231	**27**	29	**800**	1,157	**1,026**	1,417

19 Borrowings continued

(d) Maturities of Borrowings continued

	Company Total borrowings	
	1998 £m	1997 £m
Within one year or on demand	**927**	1,436
Between one and two years	**255**	182
Between two and five years	**243**	391
After five years	**352**	306
	1,777	2,315

	Group		Company	
	1998 £m	1997 £m	**1998 £m**	1997 £m
Analysis of long term borrowings:				
Borrowings repayable by instalments				
– within five years	**172**	165	**–**	–
– after five years	**28**	70	**–**	–
	200	235	**–**	–
Borrowings wholly repayable after five years	**–**	–	**352**	306
	200	235	**352**	306

(e) Borrowing facilities

At 2 January 1999, the Group had undrawn committed borrowing facilities analysed as follows:

	Expiring within one year £m	Extending beyond one year £m
Revolving Credit Facilities (committed until August 2004)	–	298
Other facilities available to the Group		
– in support of commercial paper	47	–
– for other purposes	12	–
	59	298

The other facilities available to the Group are annual facilities subject to review at various dates during each year. There are in addition other uncommitted facilities available to the Group.

20 Derivatives and other Financial Instruments

(a) Treasury Risk Management

A discussion of the Group's objectives, policies and strategies with regard to derivatives and other financial instruments can be found in the Operating and Financial Review on pages 53 to 55.

(b) Interest rate and currency of borrowings

After taking into account the various interest rate and currency swaps and caps entered into by the Group, the effective currency and interest rate exposure of the Group's borrowings as at 2 January 1999 were as follows:

				Fixed and capped borrowings		
	Net borrowings £m	Cash and liquid resources £m	Floating borrowings £m	Fixed and capped borrowings £m	Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling	220	(22)	198	44	22.4	1.2
Euro	(228)	(322)	13	81	2.1	2.8
US Dollar Bloc	436	(147)	275	308	6.1	1.7
Australia/New Zealand Dollars	66	(13)	15	64	6.3	1.3
Others	12	(16)	20	8	12.0	2.5
	506	(520)	521	505	6.2	1.8

Floating rate borrowings bear interest based on short term inter-bank rates (principally LIBOR applicable to periods of 3 months or less) or in the case of the US dollar bloc, commercial paper rates. The cash and liquid resources, which are all at floating rates, yield interest based principally on short term inter-bank rates (principally LIBOR applicable to periods of 3 months or less).

(c) Currency analysis of net assets

The Group's borrowings and net assets by currency at 2 January 1999 were as follows:

	Net assets by currency of operations £m	Net external borrowings by currency £m	Effect of currency swaps £m	Effective net external borrowings by currency £m	Net investments £m
Sterling	76	(97)	317	220	(144)
Euro	350	139	(367)	(228)	578
US Dollar Bloc	1,545	386	50	436	1,109
Australia/New Zealand Dollars	195	66	–	66	129
Others	183	12	–	12	171
	2,349	506	–	506	1,843

Net assets exclude net borrowings and minority interests. Significant foreign currency assets and liabilities generate no gain or loss in the profit and loss account either because they are denominated in the currency of the Group operation to which they belong (the functional currency) or because they qualify under SSAP 20 as a foreign currency borrowing providing a hedge against a foreign equity investment. The effect of non-optional currency derivatives, such as swaps and forward contracts, that contribute to this matching is specifically identified within the above analysis.

20 Derivatives and other Financial Instruments continued

(d) Interest Rate Risk Management

The Company has entered into various types of interest rate contracts in managing its interest rate risk.

	1998 Notional amount in millions	1997 Notional amount in millions
Forward Rate Agreements:		
UK Pounds	**£75**	£76
French Francs	**FFr720**	FFr300
Australian Dollars	**A$25**	A$150
Caps:		
Canadian Dollars	**C$75**	C$150

The notional amounts of the Forward Rate Agreements represent agreements effectively fixing the interest rate on a maximum of FFr260m of liabilities for up to eighteen months, a maximum of £38m of deposits for up to six months and a maximum of A$25m of liabilities for up to three months. The interest rate cap provides interest rate protection of 5.67% on C$75m to 2000.

The following table indicates by currency the types of swaps used and their weighted average interest rates. In each case the swap is hedging debt which is of an amount equal to or greater than that of the swap, is in the same currency, and, allowing for expected refinancings, has a term no shorter and maturity date no earlier than that of the swap.

	1998	1997
Interest Rate Swaps		
Receive-Fixed Swaps		
Australian Dollars		
Notional Amount	**A$75m**	A$75m
Average Pay Rate	**3 month A$ Bill Rate + 30bp**	3 month A$ Bill Rate + 30bp
Average Receive Rate	**8.5%**	8.5%
Average Term	**5 years**	5 years
Maturity Date	**1999**	1999
French Francs		
Notional Amount	**FFr662m**	FFr638m
Average Pay Rate	**6 month PIBOR**	6 month PIBOR
Average Receive Rate	**5.238342%**	5.63732%
Average Term	**9 years**	9 years
Maturity Date	**2005**	2005
Pay-Fixed Swaps		
US Dollars		
Notional Amount		$43m
Average Pay Rate		8.265%
Average Receive Rate	**—**	6 month $ LIBOR
Average Term		2 years
Maturity Date		1998
French Francs		
Notional Amount	**FFr2,101m**	FFr2,055m
Average Pay Rate	**7.319647%**	7.48323%
Average Receive Rate	**6 month PIBOR + 39bp**	6 month PIBOR + 40bp
Average Term	**10.9 years**	10.9 years
Maturity Date	**2005**	2005
Australian Dollars		
Notional Amount	**A$225m**	A$200m
Average Pay Rate	**6.291689%**	6.905625%
Average Receive Rate	**3 month A$ Bill Rate**	3 month A$ Bill Rate
Average Term	**1.28 years**	1.78 years
Maturity Date	**1999-2000**	1998-1999
Canadian Dollars		
Notional Amount	**C$200m**	C$200m
Average Pay Rate	**5.7445%**	5.7445%
Average Receive Rate	**3 month Can. BA Rate**	3 month Can. BA Rate
Average Term	**6 years**	6 years
Maturity Date	**2002-2004**	2002-2004

20 Derivatives and other Financial Instruments continued

	1998	1997
Cross Currency Interest Rate Swaps		
US$/C$		
Notional Amount	—	US$43.1m/C$50m
Average Receive Rate		8.775% (US$)
Average Pay Rate		180 day BA Rate + 32 bp (C$)
Average Term		2 years
Maturity Date		1998
£/US$		
Notional Amount	**£150m/US$236.25m**	£150m/US$236.25m
Average Receive Rate	**8% (£)**	8% (£)
Average Pay Rate	**3 months $ LIBOR + 10 bp**	3 months $ LIBOR + 10 bp
Average Term	**5 years**	5 years
Maturity Date	**2000**	2000
DM/C$		
Notional Amount	**DM300m/C$278.94m**	DM300m/C$278.94m
Average Receive Rate	**5.125% (DM)**	5.125% (DM)
Average Pay Rate	**3 month BA Rate + 10 bp (C$)**	3 month BA Rate + 10 bp (C$)
Average Term	**5 years**	5 years
Maturity Date	**2001**	2001

The differential to be paid or received on swap agreements is accrued as interest rates change and is recognised within net interest expense over the lives of the respective agreements. Any net asset or liability arising on conversion into sterling of the principal amounts of cross currency swaps is included on the balance sheet (see Note 19).

(e) Fair values of financial instruments

The comparison of book and fair values of all the Group's financial instruments is set out below. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest and exchange rates.

	1998		1997	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Cash at bank and in hand	**104**	**104**	86	86
Liquid resources	**416**	**416**	682	682
Debt	**(1,032)**	**(1,014)**	(1,404)	(1,380)
Derivatives to manage interest rate and currency of borrowings	**6**	**(20)**	(13)	(23)
Net borrowings	**(506)**	**(514)**	(649)	(635)
Quarterly Income Preferred Securities (see Note 22)	**(236)**	**(260)**	(238)	(266)
Derivatives relating to net borrowings:				
Assets:				
Currency and interest rate swaps	**7**	**17**	5	18
Interest rate swaps	**–**	**7**	–	3
Liabilities:				
Currency and interest rate swaps	**(1)**	**–**	(18)	(17)
Interest rate swaps	**–**	**(44)**	–	(27)
Other assets:				
Currency exchange contracts	**–**	**7**	–	11
Other liabilities:				
Currency exchange contracts	**–**	**(4)**	–	(14)

Disclosures about the fair value of cocoa futures contracts have not been made because, in the Directors' opinion, such disclosure would be seriously prejudicial to the interests of the Group given the Group's significant participation in this market.

20 Derivatives and other Financial Instruments continued

(f) Hedges of future transactions

At 2 January 1999 net unrecognised profits of £3m related primarily to hedges of future transactions which are expected to occur in 1999. Included in the 1998 profit and loss account are £3m of net losses on hedges for transactions which occurred during 1998. There were no unrecognised profits or losses on the Balance Sheet at year end.

The Group held contracts to exchange the following foreign currency amounts:

	Contract Amount	
	1998 £m	1997 £m
Contracts to sell foreign currency against sterling	**371**	428
Contracts to purchase foreign currency against sterling	**911**	474
Contracts to sell/purchase foreign currency against other foreign currency	**88**	144
Contracts to hedge currency exposures to sugar prices	**–**	55

21 Capital and Reserves

	1998 £m	1997 £m
(a) Share Capital of Cadbury Schweppes plc		
Authorised Share Capital:		
Attributable to equity interests:		
Ordinary shares (1,600 million of 25p each)	**400**	400
Attributable to non-equity interests:		
US$ Preference Shares (750 of US$1,000 each)	**–**	–
Can$ Preference Shares (150 of Can$1,000 each)	**–**	–
	400	400
Allotted, called up and fully paid Share Capital:		
Attributable to equity interests:		
Ordinary shares (1,018 million of 25p each) (1997: 1,010 million)	**254**	252

(b) Ordinary Shares

During the year 8,162,535 ordinary shares of 25p were allotted and issued as follows:

(i) Share options exercised (see Note 29)	8,122,055
(ii) Bond conversions	34,400
(iii) Share scheme allocations	6,080

The nominal value of ordinary shares issued during the year was £2m.

There were no other changes in the issued ordinary share capital of the Company during the year.

(c) Movements on capital and reserves – Group

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Retained profits £m	Total £m
At beginning of year	252	878	87	67	385	1,669
Exchange rate adjustments	–	–	–	(1)	(14)	(15)
Shares issued for cash	2	38	–	–	(9)	31
Revaluation of fixed assets	–	–	–	(3)	–	(3)
Retained profit for year	–	–	–	–	161	161
At end of year	254	916	87	63	523	1,843

The historical cost profit for the financial year was £355m (1997: £692m; 1996: £342m) and the historical cost retained profit was £161m (1997: £510m; 1996: £171m).

The gain on translation of long term foreign currency borrowings by UK companies was £6m (1997: £13m loss; 1996: £42m gain) all of which was taken to reserves since these borrowings were used to hedge assets and liabilities in the same currencies.

During the year the Company received £40m on the issue of shares in respect of the exercise of options awarded under various share option plans. Employees paid £31m to the Company for the issue of these shares and the balance of £9m comprised contributions from an employee share trust funded by subsidiary undertakings.

Total goodwill written off to reserves on businesses continuing within the Group amounts to £1,815m of which £1,728m has been written off since 3 January 1988.

(d) Movements on capital and reserves – Company

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Retained profits £m	Total £m
At beginning of year	252	878	87	1	582	1,800
Shares issued for cash	2	38	–	–	–	40
Retained loss for year	–	–	–	–	(202)	(202)
At end of year	254	916	87	1	380	1,638

The loss for the financial year for the Company was £8m (1997: £455m profit; 1996: £130m profit). The historical cost loss for the financial year for the Company was £8m (1997: £455m profit; 1996: £130m profit).

The total recognised gains and losses for the Company are the same as the loss for the financial year. The net decrease in Shareholders' funds was £162m.

(e) US$ Auction Preference Shares

Redemption of the US$ Auction Preference Shares (Series 3 to 6) was completed on 25 March 1997 at their original issue price of US$175m. In connection with this redemption, £87m was transferred to a Capital Redemption Reserve in the prior year to maintain the capital contributed by these shares.

(f) Share options

Details of outstanding share options are given in Note 29.

22 Minority Interests

	Equity		Non-Equity	
	1998 £m	1997 £m	**1998 £m**	1997 £m
At beginning of year	**68**	158	**238**	229
Exchange rate adjustments	**(9)**	(5)	**(3)**	8
Share of profit after tax	**20**	12	**21**	22
Dividends declared	**(10)**	(5)	**(20)**	(21)
Purchase of shares from minorities	**(7)**	(7)	**–**	–
Disposals	**–**	(89)	**–**	–
New issues	**–**	5	**–**	–
Other	**(1)**	(1)	**–**	–
At end of year	**61**	68	**236**	238

The non-equity minority interest represents US$400m of 8.625% Cumulative Guaranteed Quarterly Income Preferred Securities issued by a subsidiary undertaking.

23 Acquisitions

At the end of 1998 the Group acquired the minority interests in Trebor Allan Inc. (Canada). Jaret International (CS) Inc. (US) and Piasten (Germany) under the terms of the respective shareholder agreements. Payments of approximately £48m for these transactions will be made in the first quarter of 1999 and goodwill arising on these and other small acquisitions is £46m.

As noted in Note 12, the Group also acquired 39.3% of the equity of ABC. This acquisition, combined with other immaterial acquisitions, resulted in total payments during the year of £96m.

In January 1997 the Group purchased an 80% interest in Jaret International (CS) Inc., a distributor of sugar confectionery in the US. In February 1997 the Group purchased the Food Industries Development Co. (Bim Bim), an Egyptian confectionery company. On 31 December 1997, the Group acquired the assets of La Pie Qui Chante, a French confectionery business.

The contribution from acquisitions to sales and trading profits in 1997 was £41m and £10m, respectively.

During 1997, the Group also increased its holding in Piasten (Germany) from 70% to 85% and in Cadbury Stani (Argentina) from 80% to 100%, and met deferred consideration obligations arising under a previous acquisition. Total payments under these transactions were £38m and goodwill arising was £11m.

All acquisitions have been accounted for using the purchase method of accounting.

24 Leasing Commitments

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

	Finance leases		Operating leases
	1998 £m	1997 £m	**1998 £m**
Within one year	**7**	7	**28**
Between one and two years	**7**	7	**21**
Between two and three years	**6**	6	**14**
Between three and four years	**5**	5	**11**
Between four and five years	**3**	5	**10**
After five years	**4**	6	**79**
	32	36	**163**
Less: Finance charges allocated to future periods	**(5)**	(7)	**–**
	27	29	**163**

The minimum annual lease payments in 1999, to which the Group was committed under non-cancellable operating leases as at the year end, were as follows:

	Property		Plant and equipment	
	1998 £m	1997 £m	**1998 £m**	1997 £m
On leases expiring:				
Within one year	**4**	3	**1**	4
Between one and five years	**2**	4	**11**	10
After five years	**10**	9	**–**	–
	16	16	**12**	14

The Group leases certain land and buildings on short term and long term operating leases. The rents payable under these leases are subject to re-negotiation at various intervals specified in the leases. The Group pays all insurances, maintenance and repairs on these properties.

Operating lease expenses charged in the profit and loss account are as follows:

	Property £m	Plant and equipment £m
1998	18	20
1997	20	20
1996	27	26

25 Contingent Liabilities and Financial Commitments

(a) The Company has guaranteed borrowings and other liabilities of certain subsidiary undertakings, the amount outstanding and recognised on the Group Balance Sheet at 2 January 1999 being £601m (1997: £842m). The Company has also guaranteed certain contingent liabilities of some undertakings in which it has an equity interest, the maximum liability at 2 January 1999 being £11m (1997: £27m).
(b) Subsidiary undertakings have guarantees and indemnities outstanding amounting to £71m (1997: £64m).
(c) Concentration of Credit Risk: 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.

26 Cash Flow from Operating Activities

	1998 £m	1997 £m	1996 £m
Group operating profit	**560**	608	671
Depreciation	**152**	145	183
Non-cash items relating to restructuring provisions	**(12)**	14	35
Non-cash exceptional item	**68**	–	–
Cash items relating to retirement benefits	**(2)**	(2)	(4)
Changes in working capital			
– Stocks	**(3)**	(30)	(17)
– Debtors	**(95)**	15	(82)
– Creditors	**18**	(31)	72
	686	719	858

The principal cash flows relating to the discontinued operations are identified in Note 2.

27 Foreign Currency Translation

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

	1998 Average	1997 Average	Devaluation	1996 Average	**1998 Closing**	1997 Closing
US dollar	**1.66**	1.64	**1%**	1.57	**1.66**	1.64
Canadian dollar	**2.46**	2.27	**8%**	2.14	**2.56**	2.34
Australian dollar	**2.61**	2.21	**18%**	2.00	**2.71**	2.52
Spanish peseta	**247**	239	**3%**	199	**236**	251
French franc	**9.74**	9.51	**2%**	8.01	**9.29**	9.90
Irish punt	**1.16**	1.08	**7%**	0.98	**1.12**	1.15
South African rand	**9.17**	7.58	**21%**	6.73	**9.79**	8.01
Mexican peso	**15.20**	13.00	**17%**	11.90	**16.50**	13.20

The devaluation column shows the decline in value of the average exchange rate against sterling in 1998, compared with 1997.

28 Post Balance Sheet Events

(a) In December 1998, the Group announced an agreement to sell for US$1.85bn the Group's beverage brands and concentrate plants outside the US, France and South Africa. Regulatory clearance is necessary in a number of countries and the Group anticipates that the transaction will be completed in 1999. The consideration comprises cash to the value of US$1.75bn and notes with a present value of US$100m. Total tax and expenses of the disposal are estimated at US$350m. The estimated impact of excluding these businesses from the 1998 trading results is set out below. This assumes that the transaction had occurred at the beginning of 1998 and is presented for illustrative purposes on a pro forma basis.

For the 52 weeks ended 2 January 1999
Pro Forma Trading Results

	As reported £m	Pro forma adjustments £m	Pro forma £m
Sales	4,106	(147)	3,959
Group operating profit	560	(52)	508
Share of operating profit in associates	38	–	38
Total Operating profit including associates	598	(52)	546

At 2 January 1999 the net assets of the businesses to be disposed included approximately £160m of intangible assets and £10m of net operating and other non-finance liabilities.

(b) On 29 January 1999 the Group acquired Wedel, Poland's leading chocolate confectionery brand and the related assets for US$77m.

29 Share Options

Up to 101 million ordinary shares of 25p each, being part of the authorised share capital, may be issued under options granted to employees under various share option plans and at 2 January 1999 there were options exercisable over 37,266,003 shares.

With the exception of the savings-related option plans, all option plans grant options at fair market value on the date of the grant. In the case of the savings-related option plans, options are offered to all employees at a discount to the market value on the date of the grant, such a discount being within the limits permitted by the fiscal authorities.
No compensation expense is recorded.

Details of the various plans are as follows:

						Options outstanding			
	Balance outstanding at beginning of year	Granted	Exercised	Cancelled	Balance outstanding at end of year	Exercise prices for options extant during the year in the range (in £ unless otherwise stated)	Weighted average exercise price (in £ unless otherwise stated)	Weighted average contractual life in months	Exercisable at year end
(a)	3,461,696	–	2,508,428	23,738	929,530	2.3081 – 3.2540	3.21	15	–
	8,043,920	–	180,873	376,303	7,486,744	3.5267 – 4.2880	3.79	31	–
	2,389,974	–	1,746	181,797	2,206,431	4.7040 – 4.9980	4.74	56	–
	–	2,047,740	–	14,990	2,032,750	6.8280 – 7.2550	6.89	68	–
(b)	141,160	–	68,705	–	72,455	2.4501 – 2.9987	3.00	21	72,455
	2,212,915	–	778,502	–	1,434,413	3.1973 – 4.4276	4.30	49	1,434,413
(c)	362,020	–	148,190	–	213,830	2.4501 – 2.9987	3.00	21	213,830
	2,256,648	–	914,365	–	1,342,283	3.1973 – 4.4276	4.25	49	1,342,283
(d)	3,456,877	–	1,300,182	10,932	2,145,763	3.8417 – 4.0914	4.08	70	2,145,763
	14,067,228	–	1,126,157	650,041	12,291,030	4.8500 – 5.9350	5.36	94	3,319,222
	–	4,166,000	–	6,212	4,159,788	8.8600 – 8.8750	8.87	117	–
(e)	1,054	–	1,046	8	–	2.8851	–	–	–
	1,007,476	–	369,859	3,865	633,752	3.4038 – 4.9980	3.88	29	89,731
	–	208,332	–	–	208,332	6.8280 – 7.2550	6.89	64	–
(f)	480,579	–	77,227	2,678	400,674	3.4038 – 4.9980	3.78	18	237,798
	–	79,268	–	–	79,268	6.8280 – 7.2550	6.84	73	–
(g)	301,700	–	129,417	15,679	156,604	A$8.39 – 9.89	A$9.26	15	–
	–	121,200	–	7,600	113,600	A$19.51	A$19.51	32	–
	34,600	–	12,770	4,250	17,580	NZ$9.50 – 11.20	NZ$10.71	16	–
	–	10,800	–	2,100	8,700	NZ$23.00	NZ$23.00	32	–
(h)	994,960	–	504,292	53,564	437,104	US$7.4242	US$7.42	4	–
	–	411,872	296	14,492	397,084	US$12.7825	US$12.78	17	–
(i)	–	498,288	–	–	498,288	6.1000 – 6.8200	6.42	52	–

(a) A Savings-Related Share Option Scheme for employees was approved by shareholders in May 1982. These options are normally exercisable within a period not later than six months after the repayment date of the relevant “Save-as-you-Earn” contracts which are for a term of three, five or seven years.
(b) A Share Option Scheme for directors and senior executives was approved by shareholders in May 1984. These options are normally exercisable within a period of up to seven years commencing three years from the date of grant.
(c) A Share Option Scheme for senior management overseas was approved by shareholders in May 1986. Options under this scheme are normally exercisable within a period up to seven years commencing three years from the date of grant.

(d) A Share Option Plan for directors, senior executives and senior managers was approved by shareholders in May 1994. Options under this plan are normally exercisable within a period of seven years commencing three years from the date of grant, subject to the satisfaction of certain performance criteria.
(e) A Save-as-you-Earn option plan for eligible employees of Cadbury Ireland Limited was approved by shareholders in May 1988. These options are exercisable within a period not later than six months after the repayment of the relevant "Save-as-you-Earn" contracts, which are for a term of three, five or seven years.
(f) A Save-as-you-Earn option plan linked to additional voluntary contributions for pension purposes for eligible employees of Cadbury Ireland Limited was approved by shareholders in May 1987. These options are exercisable within a period not later than six months after the repayment of the relevant "Save-as-you-Earn" contracts, which are for a term of three, five or seven years.
(g) An Option Contribution Plan for employees in Australia and New Zealand was approved by shareholders in May 1993. The options are exercisable in three periods, each of four weeks commencing after the announcement of the Group's interim results.
(h) A Stock Purchase Plan for employees in the US and Canada was approved by shareholders in May 1994. The options are normally exercisable within a period of two weeks commencing on the first business day after the end of the fiftieth bi-weekly deduction period. If the interest earned to 2 January 1999 was taken into consideration, the number of shares exercisable at that date would have been 867,555.
(i) 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 and Belgium were granted options during the year. Options are exercisable within a period not later than three months after the repayment of the relevant "Save-as-you-Earn" contracts, which are for a term of three or five years.

The weighted average fair value at the grant date of options granted were as follows:

	1998	1997
Options whose exercise price equals		
the market price on the grant date	**197.2p**	124.6p
Weighted average assumptions		
Risk free interest rate	**5.8%**	6.8%
Expected life (months)	**56**	57
Expected volatility	**19.5%**	18.0%
Dividend yield	**2.0%**	2.9%
Options whose exercise price is less		
than the market price on the grant date	**272.1p**	181.4p
Weighted average assumptions		
Risk free interest rate	**6.2%**	7.1%
Expected life (months)	**59**	59
Expected volatility	**20.9%**	17.6%
Dividend yield	**2.2%**	2.8%

See Note 31 for the pro forma effect of applying the fair value of options granted to US GAAP profit.

The Cadbury Schweppes Irish Employee Share Scheme (the "Irish Share Plan")
In the last five years, 3,887 appropriations under the Irish Share Plan (a profit sharing plan) totalling 53,645 ordinary shares, have been made to Irish registered employees who worked 25 hours or more per week, with two or more continuous years' service. The prices at which the shares will vest, between the dates of 18 May 1999 and 22 June 2001, range from £4.32 to £8.04.

The options held by each current Director are detailed in the Report of the Directors on page 74. There were no options held by them under the Irish Share Plan.

30 Group Companies

	Activities	Country of incorporation and operation	Proportion of issued share capital held if not 100%
Details of principal associated undertakings			
American Bottling Holdings, Inc.	(b)	US	39.3%
Cadbury Nigeria PLC (listed)	(a)	Nigeria	40%
Schweppes Zimbabwe Ltd (listed)	(b)	Zimbabwe (i)	44.8%
Crystal Candy (Private) Ltd	(a)	Zimbabwe (i)	49%
L'Européenne D'Embouteillage SNC	(b)	France	50%
Apollinaris & Schweppes GmbH & Co	(b)	Germany	28%
Amalgamated Beverage Industries Ltd (listed)	(b)	South Africa	14.6%
Oasis Beverages (Guangzhou) Ltd	(b)	China	35%
Camelot Group plc*	(c)	Great Britain	26.7%
Details of principal subsidiary undertakings			
Operating companies			
United Kingdom			
Cadbury Ltd*	(a)	Great Britain	
Schweppes Ltd*	(b)	Great Britain	
Reading Scientific Services Ltd*	(c)	Great Britain	
Trebor Bassett Ltd	(a)	Great Britain	
Cadbury International Ltd	(a)	Great Britain	
Europe			
Cadbury Ireland Ltd	(a)	Ireland	
Schweppes International Ltd*	(b)	Ireland† (i)	
Canada Dry Corporation Ltd	(b)	Ireland	
Schweppes France	(b)	France	
Cadbury France SA	(a)	France	
La Pie Qui Chante SA	(a)	France	
Schweppes SA	(b)	Spain	
Cadbury Dulciora SA	(a)	Spain	
Schweppes Belgium SA	(b)	Belgium	
Cadbury Faam BV	(a)	Netherlands	
Schweppes Portugal, SA	(b)	Portugal	
Cadbury Portugal – Produtos de Confeitaria Lda	(a)	Portugal	
Piasten Schokoladenfabrik Hofmann GmbH & Co KG	(a)	Germany	
Cadbury Confectionery ZAO	(a)	Russia	82%
Cadbury Wedel Sp. zo.o.*	(a)	Poland	
Americas			
Dr Pepper/Seven Up, Inc	(b)	US	
Cadbury Beverages Inc	(b)	US	
Mott's Inc	(b)	US	
Jaret International (CS) Inc.	(a)	US	
Cadbury Beverages Canada Inc	(b)	Canada	
Cadbury Chocolate Canada Inc.	(a)	Canada	
Trebor Allan Inc	(a)	Canada	
Cadbury Aguas Minerales, SA de CV	(b)	Mexico (i)(ii)	
Cadbury Stani SAIC	(a)	Argentina	

	Activities	Country of incorporation and operation	Proportion of issued share capital held if not 100%
Details of principal subsidiary undertakings continued			
Operating companies			
Other overseas:			
Cadbury Schweppes Pty Ltd	(a)(b)	Australia	
Cadbury Confectionery Ltd	(a)	New Zealand	
Cadbury Food Co Ltd Beijing	(a)	China	75%
Cadbury Schweppes (South Africa) Ltd (listed)	(a)(b)	South Africa	55%
Bromor Foods (Pty) Ltd	(a)	South Africa	55%
Cadbury Ghana Ltd	(a)	Ghana	
Cadbury Kenya Ltd	(a)	Kenya	
Cadbury Pakistan Ltd	(a)	Pakistan	95%
Cadbury Schweppes (Zambia) Ltd	(b)	Zambia	
Cadbury Confectionery Malaysia SB	(a)	Malaysia	65%
Trebor (Malaysia) SB	(a)	Malaysia	65%
PT Trebor Indonesia	(a)	Indonesia	
Cadbury India Ltd (listed)	(a)	India	51%
Cadbury Egypt	(a)	Egypt	80%
Food Industries Development Company (Bim Bim)	(a)	Egypt	
Cadbury Japan Ltd	(a)	Japan	
Cadbury Four Seas Company Ltd	(a)	Hong Kong	70%
Cadbury Singapore Pte Ltd	(a)	Singapore	
Finance and holding companies:			
Cadbury Schweppes Finance Ltd*	(c)	Great Britain	
Cadbury Schweppes Money Management plc*	(c)	Great Britain	
Cadbury Schweppes Overseas Ltd	(c)	Great Britain	
Connaught Investments plc*	(c)	Great Britain	
Cadbury Schweppes Group Trustees Ltd*	(c)	Great Britain	
Cadbury Schweppes Investments (Jersey) Ltd	(c)	Jersey	
Cadbury Schweppes Treasury Services	(c)	Ireland	
Cadbury Schweppes France SA	(c)	France	
Cadbury Schweppes Investments BV	(c)	Netherlands (i)	
Cadbury Schweppes Australia Ltd	(c)	Australia (ii)	
CS Finance Pty Ltd	(c)	Australia	
Cadbury Schweppes Delaware, LP	(c)	US	
Cadbury Schweppes Holdings, Inc	(c)	US	

*Investment held directly by Cadbury Schweppes plc
†Incorporated in Great Britain

Advantage has been taken of Section 231(5) of the Companies Act 1985 to list above 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).

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.

31 Summary of Differences Between UK and US Generally Accepted Accounting Principles

The financial statements are prepared in accordance with generally accepted accounting principles applicable in the UK ("UK GAAP"), which differ in certain significant respects from those applicable in the US ("US GAAP"). These differences relate principally to the following items and the necessary adjustments are shown in the tables set out on pages 132 to 134.

The Group has not adopted the requirements of US Statement of Financial Accounting Standard (SFAS) 133 "Accounting for Derivative Instruments and Hedging Activities" which will be effective for the Group's year 2000 financial statements. The Group has not quantified the impact of the standard on the US GAAP amounts, however the standard could increase volatility in US GAAP earnings. SOP 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" will be adopted for 1999, as required. This statement is not expected to have a material impact on the Group's US GAAP earnings.

(a) Goodwill and Intangible assets

Prior to 1998, under UK GAAP the Group wrote off acquisition goodwill against reserves in the balance sheet in the year of acquisition. From 1998, under UK GAAP acquired goodwill is capitalised and its subsequent measurement (via annual impairment review or annual amortisation charge) is determined based on the individual circumstances of each business acquired. Prior to 1998, under US GAAP, goodwill was recognised on the balance sheet and amortised by charges against profit over its estimated useful life, not to exceed 40 years.

A portion of the goodwill capitalised in 1998 is not being amortised under UK GAAP (see Note 1); for US GAAP purposes this goodwill is being amortised over a period of 20 years. Other goodwill capitalised in 1998 is being amortised over 20 years for UK GAAP purposes; the same estimated useful life has also been used for US GAAP purposes.

Under UK GAAP, the cost of brands (trademarks) acquired may be capitalised and no amortisation or writedown is required unless there is an impairment in value below cost. On an annual basis, the Group reviews non-amortised goodwill and brands for possible impairment using an estimate of the related business's discounted cash flows in measuring whether the asset is recoverable. For US GAAP purposes purchased brands are being amortised on a straight line basis over 40 years.

(b) Restructuring costs

Under US GAAP the requirements for establishing provisions for restructuring costs differ from those under UK GAAP and there are also different criteria for determining the timing of the recognition of restructuring costs.

(c) Interest capitalisation

Under UK GAAP, the capitalisation of interest is optional and the Company has only capitalised interest on major capital construction projects since 1993. Under US GAAP interest is required to be capitalised on capital construction projects and amortised over the life of the asset.

(d) Foreign currency hedges

Under US GAAP, hedging of foreign currency transactions is only allowable for transactions which are firm commitments. Some of the Group's foreign currency contracts hedge forecast or budgeted transactions which do not meet the definition of a firm commitment; gains or losses on these contracts cannot be deferred but must be recognised in net income.

Under UK GAAP, these gains or losses can be deferred until the hedged transaction actually occurs.

(e) Deferred taxation

Under UK GAAP, no provision is made for deferred taxation if there is reasonable evidence that such deferred taxation will not be payable in the foreseeable future. Under US GAAP, deferred taxation is provided for all differences between the book and tax bases of assets and liabilities.

(f) Revaluation of properties

Under UK GAAP, properties may be re-stated on the basis of appraised values in financial statements prepared in all other respects in accordance with the historical cost convention. Such re-statements are not permitted under US GAAP.

(g) Ordinary dividends

Under UK GAAP, final ordinary dividends are provided in the financial statements on the basis of the recommendation by the Directors which requires subsequent approval by the shareholders to become a legal obligation of the Company. Under US GAAP, dividends are only provided when the legal obligation to pay arises.

(h) Pension costs

Under UK GAAP, the costs of providing pension benefits may be calculated by the use of any recognised actuarial method which is appropriate and whose assumptions reflect the long term nature of the assets and liabilities involved. Under US GAAP, the costs of providing these benefits are calculated using the projected unit credit method and a discount rate (being the rate of interest at which pension liabilities could be effectively settled) which reflects current market rates.

(i) Cash Flows

Under UK GAAP the Company complies with the FRS 1 (Revised) "Cash Flow Statements" the objective and principles of which are similar to those set out in SFAS 95 "Statement of Cash Flows". Under FRS 1 (Revised), the Company presents its cash flows for (a) operating activities; (b) dividends from associates; (c) returns on investments and servicing of finance; (d) taxation; (e) capital expenditure and financial investments; (f) acquisitions and disposals; (g) dividends to ordinary shareholders; (h) management of liquid resources; and (i) financing activities. SFAS 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing.

Cash flows arising from taxation and returns on investments and servicing of finance under FRS 1 (Revised) would be included as operating activities under SFAS 95; dividend payments would be included as a financing activity under SFAS 95 and cash flows from capital expenditure, long term investments, acquisitions and disposals would be included as investing activities under SFAS 95. In addition, under FRS 1 (Revised), cash represents cash at bank and in hand less bank overdrafts; cash equivalents (liquid resources) are not included with cash. Movements of liquid resources are included under a separate heading under FRS 1 (Revised).

Payments made against provisions set up on the acquisition of subsidiaries have been included in acquisitions and disposals in the cash flow statement. Under US GAAP these payments would be included in determining net cash provided by operating activities.

31 Summary of Differences Between UK and US Generally Accepted Accounting Principles continued

Approximate effects on profit of differences between UK and US generally accepted accounting principles

	1998 £m	1997 £m	1996 £m
Profit for the Financial Year from continuing operations, net of tax, (per UK GAAP)	**355**	343	302
US GAAP adjustments:			
Amortisation of goodwill and trademarks	**(87)**	(83)	(88)
Restructuring costs	**(9)**	(8)	(6)
Depreciation of capitalised interest	**(6)**	(10)	(5)
Pension costs	**14**	(5)	(2)
Exceptional item/Disposal gain adjustment	**(7)**	19	–
Timing of recognition of foreign currency hedges	**4**	(12)	8
Other items	**–**	1	1
Taxation on above adjustments	**3**	9	1
Deferred taxation	**(10)**	6	(3)
Profit for the Financial Year from continuing operations, net of tax, as adjusted for US GAAP	**257**	260	208
Profit from discontinued operations, net of tax, as adjusted for US GAAP	**–**	1	39
Gain on disposal of discontinued operations, net of tax, as adjusted for US GAAP	**–**	356	–
Profit for the Financial Year as adjusted for US GAAP	**257**	617	247

Earnings per ADS under US GAAP

	1998	1997 (In £ per ADS)	1996
Earnings per ADS from continuing operations			
Basic	**1.01**	1.03	0.84
Diluted	**1.00**	1.02	0.83
Earnings per ADS from discontinued operations net of tax			
Basic	**–**	–	0.15
Diluted	**–**	–	0.15
Gain on disposal of discontinued operations per ADS, net of tax			
Basic	**–**	1.42	–
Diluted	**–**	1.40	–
Total earnings per ADS			
Basic	**1.01**	2.45	0.99
Diluted	**1.00**	2.42	0.98

There is no material difference in earnings under the Basic and Diluted Earnings per ADS calculations. See Note 9 for a reconciliation of shares used in the Basic and Diluted EPS calculations.

	1998	1997	1996
Average number of ADS – Basic	**254**	252	248
Average number of ADS – Diluted	**258**	254	251

The Company applies US APB Opinion 25 and related interpretations when accounting for its share option plans (see Note 29 for a summary of the plans). Had compensation cost for the Company's share option plans been determined based on the fair value at the grant date for awards under those plans consistent with the method of SFAS Statement 123 "Accounting for Stock-Based Compensation", the Company's profit and earnings per share under US GAAP would have been reduced to the pro forma amounts indicated below:

Continuing Operations:

	1998	1997
	£m except per ADS data	
Profit for the Financial Year from continuing operations as adjusted for US GAAP:		
As reported	**257**	260
Pro forma	**243**	251
Basic earnings per ADS per US GAAP:		
As reported	**1.01**	1.03
Pro forma	**0.96**	1.00
Diluted earnings per ADS per US GAAP:		
As reported	**1.00**	1.02
Pro forma	**0.94**	0.99

Total Operations:

	1998	1997
	£m except per ADS data	
Profit for the Financial Year as adjusted for US GAAP:		
As reported	**257**	617
Pro forma	**243**	608
Basic earnings per ADS per US GAAP:		
As reported	**1.01**	2.45
Pro forma	**0.96**	2.42
Diluted earnings per ADS per US GAAP:		
As reported	**1.00**	2.42
Pro forma	**0.94**	2.39

Further details regarding the fair valuation of option grants can be found in Note 29.

31 Summary of Differences Between UK and US Generally Accepted Accounting Principles continued

Approximate cumulative effect on Shareholders' Funds of differences between UK and US generally accepted accounting principles

	1998 £m	1997 £m	1996 £m
Shareholders' Funds per UK GAAP	**1,843**	1,669	1,287
US GAAP adjustments:			
Goodwill and intangibles	**1,063**	1,178	1,236
Restructuring provisions	**–**	9	17
Pension costs	**(30)**	(45)	(43)
Interest capitalisation	**15**	21	35
Property revaluations	**(62)**	(67)	(76)
Dividends	**135**	127	118
Other items	**–**	(3)	9
Taxation on above adjustments	**(5)**	(8)	(18)
Deferred taxation	**(77)**	(67)	(80)
Shareholders' Funds as adjusted for US GAAP	**2,882**	2,814	2,485

The gross amounts of goodwill, brands and tangible fixed assets and the corresponding accumulated amortisation/depreciation under US GAAP are as follows:

	1998 £m	1997 £m
Goodwill:		
Gross	**1,565**	1,576
Accumulated amortisation	**(253)**	(215)
	1,312	1,361
Brands:		
Gross	**1,561**	1,575
Accumulated amortisation	**(201)**	(162)
	1,360	1,413
Tangible fixed assets:		
Gross	**2,117**	2,083
Accumulated depreciation	**(1,048)**	(920)
	1,069	1,163

The analysis of cumulative exchange differences within Shareholders' Funds is as follows:

	1998 £m	1997 £m	1996 £m
Balance at beginning of year	**170**	137	(113)
Movement in the year			
– translation adjustments	**34**	40	252
– tax effect	**(4)**	(7)	(2)
Balance at end of year	**200**	170	137

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Registered Office and Group Headquarters

25 Berkeley Square
London W1X 6HT
UK

Registered in England and Wales No. 52457

Australian Registered Body No. 003 693 098

Secretary
M A C Clark

Financial Calendar

	Final Dividend for 1998	Interim Dividend for 1999
Ordinary shares		
Announcement of results	24 February 1999	28 July 1999
Ex-dividend date	8 March 1999	9 August 1999
Record date	12 March 1999	13 August 1999
Dividend payment	21 May 1999	19 November 1999

The Annual General Meeting of the Company is on 6 May 1999.

Dividends

The interim dividend for 1998 of 5.8p net per ordinary share was paid, as a Foreign Income Dividend, on 20 November 1998. The final dividend for 1998 of 13.2p per ordinary share was recommended by the Directors on 24 February 1999 and, subject to approval at the Annual General Meeting, will be paid on 21 May 1999 to ordinary shareholders on the register at the close of business on 12 March 1999. The recommended final dividend totals £135 million.

As the interim dividend 1998 was paid as a Foreign Income Dividend, in accordance with the regulations, a Share Dividend Alternative could not be offered. Following changes in tax legislation the final dividend is recommended as a conventional dividend with an associated tax credit of 10%.

The Company has paid cash dividends on its ordinary shares in respect of every financial year since the merger of Cadbury Group Limited with Schweppes, Limited in 1969.

Dividends are paid to holders of ordinary shares on dates which are fixed in accordance with the guidelines of the London Stock Exchange. A final dividend is normally recommended by the Board of Directors following the end of the financial year to which it relates and is paid in the following May, subject to shareholders' approval at the Company's Annual General Meeting. The final dividend for holders of ADSs is normally paid by the Depositary one week after the dividend is paid to ordinary shareholders.

Table 7·1 details the amounts of interim, final and total dividends paid in respect of each financial year indicated, translated into US dollars per ADS (each representing four ordinary shares) at the Noon Buying Rate on each of the respective payment dates for interim and final dividends, increased by the associated tax credit up to 1996.

Table 7·1

Financial Year	Pence per Ordinary Share Interim	Final	Total	Translated into US Dollars per ADS Interim	Final	Total
1994	5.75	13.75(a)	19.50	0.34	0.87(a)	1.21
1995	6.13	13.87	20.00	0.38	0.84	1.22
1996	6.50	14.75	21.25	0.44	0.96	1.40
1997	5.50	12.50	18.00	0.37	1.02	1.39
1998	5.80	13.20(b)	19.00	0.48		

(a) Second Interim Dividend instead of Final Dividend
(b) To be paid on 21 May 1999 (Paid 28 May 1999 in US)

Future dividends paid by the Company will be dependent upon the Company's earnings, financial condition and other factors, including the amounts of dividends paid to it by its subsidiaries. There is no UK governmental restriction on dividend payments to foreign shareholders which is applicable to the Company.

Share Dividend Alternative

The Company last offered a Share Dividend Alternative in respect of the final dividend 1996 (paid in May 1997). The subsequent dividends, from the interim dividend 1997 to the interim dividend 1998 inclusive, were paid as Foreign Income Dividends and no Share Dividend Alternative could be offered. The Share Dividend Alternative has therefore been suspended since October 1997.

Dividend Reinvestment Plan

A Dividend Reinvestment Plan ("DRIP") is in operation. The DRIP enables shareholders to apply the whole of their cash dividends to buy additional ordinary shares in the Company in the market at competitive dealing rates. Full details of the DRIP can be obtained from the Registrars. Completed Application Forms for the DRIP, to apply to the final dividend 1998, must be returned to the Registrars by 29 April 1999.

Low Cost Share Dealing Service

Hoare Govett Limited operates a Low Cost Share Dealing Service in the ordinary shares of the Company which enables investors to buy or sell certificated shareholdings in a simple, economic manner.

The basic commission is 1% of the value of the transaction with a minimum charge of £10. This is a postal service. Transactions are executed and settled by Pershing Securities Limited. The service is subject to the detailed terms and conditions set out in the Hoare Govett leaflet, which can be obtained by telephoning 0171-601 0101 or by writing to:

Hoare Govett Limited
4 Broadgate
London EC2M 7LE

This service is not available to US persons for the purpose of the United States Securities Act 1933 nor to shareholders who are or will be registered on the Australian Register.

Registrars

Shareholder records are maintained on either the UK Register by Lloyds TSB Registrars or the Australian Register by Perpetual Registrars Limited (formerly Coopers & Lybrand). Arrangements for American Depositary Shares in the US are set out on page 139.

UK Registrar

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
UK
Telephone: 01903 502541

The Registrar should be notified in writing of changes to name or address, loss of a share certificate or dividend warrant or a change to or notification of a dividend mandate (see below).

Shareholders with more than one account, arising from inconsistencies in name or address details, may avoid duplicate sets of mailings by asking the Registrar to amalgamate the holdings.

Shareholders should ensure that all communications are addressed to:
The Registrar, Cadbury Schweppes plc at the Lloyds TSB Registrars address above and include their reference number, which starts with 303, as detailed on the dividend tax voucher.

Dividend Mandate

Dividends for shareholders on the UK Register are paid through BACS and can be paid directly into a UK bank or building society account with the tax voucher sent direct to the shareholder's registered address. A dividend mandate form is available from Lloyds TSB Registrars.

Australian Registrar

Perpetual Registrars Limited
Level 4
333 Collins Street
Melbourne
Victoria 3000
Australia
Telephone: (03) 9205 4999
http://www.au.coopers.com/srs/index.htm

Postal Address
Perpetual Registrars Limited
GPO Box 1736P
Melbourne
Victoria 3001
Australia

The Registrar should be notified in writing of changes to name or address, loss of a share certificate or dividend warrant or a change to or notification of a direct dividend credit (see page 139).

Shareholders should ensure that all communications are addressed to The Registrar, Cadbury Schweppes plc at the Perpetual Registrars postal address above and include their reference number, which starts with C000, as detailed on the dividend tax voucher.

Direct Dividend Credit

Dividends for shareholders on the Australian Register can be paid directly into an Australian bank or building society account. A form for direct credit of dividends is available from Perpetual Registrars Limited.

"Q" Arrangement

The "Q" arrangement will cease with effect from 6 April 1999. These arrangements, established by the Company under the United Kingdom/Australia Double Taxation Agreement, entitled qualifying shareholders to receive an additional amount of the dividend representing a refund of part of the UK tax imposed on the dividend. The arrangement did not apply to dividends received in the form of shares (the Share Dividend Alternative Programme) or as Foreign Income Dividends. The cessation is due to changes in UK tax legislation which remove the right to UK tax refunds on dividends.

United States of America

Cadbury Schweppes American Depositary Shares ("ADS") are quoted on the New York Stock Exchange. One ADS represents four ordinary shares.

SEC Filings

In accordance with US legislation, portions of this Report have been incorporated by reference to the Company's Annual Report on Form 20-F, filed with the Securities and Exchange Commission ("SEC") in Washington DC, and a copy of this Report has been filed as an exhibit to a Form 6-K filed with the SEC. This filing is available for public inspection and ADS holders may obtain a copy of the Form 20-F from the New York office of Morgan Guaranty Trust Company of New York. Other shareholders wishing to see a copy of the Form 20-F should apply to the Company Secretary in London.

Shareholder Services Program

A Shareholder Services Program ("SSP") has been established by Morgan Guaranty Trust Company of New York for existing holders of ADSs and those people making a purchase of American Depositary Receipts ("ADRs") in the Company for the first time. This SSP provides a convenient and economical way for investors to increase their ADR investment in the Company.

Further information about the SSP may be obtained from Morgan Guaranty Trust Company: Freephone: #1 800 749 1687 or at the address below.

Contact Point – ADS Depositary

Morgan Guaranty Trust Company of New York is Depositary for Cadbury Schweppes American Depositary Shares: Telephone: (781) 575 4328. Information about the SSP and shareholder enquiries may be directed to:

Morgan Guaranty Trust Company of New York
PO Box 8205
Boston
MA 02266-8205
http://www.adr.com

The Trading Market

The principal trading market for the ordinary shares of 25p is the London Stock Exchange Limited (the "London Stock Exchange") in London, England. American Depositary Shares ("ADSs"), for which Morgan Guaranty Trust Company of New York (the "Depositary") is the Depositary, have been traded on the New York Stock Exchange since 2 May 1996 under the ticker symbol CSG. Previously they were traded on the over-the-counter market in the US from 1984 until 1 May 1996 and were quoted on NASDAQ under the symbol CADBY. In 1989 a listing of the ordinary shares was also obtained on the Australian Stock Exchange Limited on which the ordinary shares are quoted under the symbol CBS.

Currently, each ADS represents four ordinary shares of 25p. If, as described in the Letter to Shareowners, shareholder approval is obtained to divide each outstanding ordinary share of 25p into two ordinary shares of 12.5p, it is expected that each outstanding ADS will similarly be divided into two ADSs, each representing four ordinary shares of 12.5p.

The following table sets forth for the calendar quarters indicated the highest and lowest middle market quotations for the ordinary shares (as derived from the Daily Official List of the London Stock Exchange) and the highest and lowest sales prices of the ADSs as reported on the New York Stock Exchange composite tape.

Table 7·2

Financial Year		Ordinary Shares High (Pence)	Ordinary Shares Low (Pence)	American Depositary Shares High (US$)	American Depositary Shares Low (US$)
1997:	First quarter	555.00	468.50	36.50	30.13
	Second quarter	566.50	513.50	37.50	33.38
	Third quarter	623.50	546.50	41.25	35.88
	Fourth quarter	650.00	586.00	43.94	38.25
1998:	First quarter	851.50	613.50	57.25	40.25
	Second quarter	991.50	822.00	64.875	54.25
	Third quarter	975.00	727.00	64.50	51.4375
	Fourth quarter	1,041.00	722.00	70.125	48.50

The ADS price is affected by the exchange rate between the pound sterling and the US dollar. See Exchange Rates on page 142.

At 2 January 1999, 40 million ordinary shares were held as ADSs by 1,589 account holders with registered addresses in the US, representing approximately 3.9% of the outstanding ordinary shares. Analysis of the share register and of the beneficial ownership of ordinary shares held by nominees through the London Stock Exchange indicated that in total 149 million ordinary shares, including those held through ADSs, were held by 1,800 investors with addresses in the US, representing 14.6% of the outstanding ordinary shares.

The 8.625% Cumulative Guaranteed Quarterly Income Preferred Securities, Series A (the "Preferred Securities") (liquidation preference US$25 per security) issued by Cadbury Schweppes Delaware, LP and guaranteed as to certain payments by the Company, are traded on the New York Stock Exchange. The following table shows, for the financial quarters indicated, the highest and lowest sales prices of the Preferred Securities as reported on the New York Stock Exchange composite tape:

Table 7·3

Financial Year		High (US$)	Low (US$)
1997:	First quarter	26⅞	25⅝
	Second quarter	26½	24⅞
	Third quarter	26 11/16	25 5/16
	Fourth quarter	27⅜	26 3/16
1998:	First quarter	27⅜	26 9/16
	Second quarter	26 13/16	26⅛
	Third quarter	27	26 3/16
	Fourth quarter	27⅜	26½

Exchange Controls and other Limitations affecting Security Holders

There are at present no UK foreign exchange control restrictions on remittance of dividends on the Company's ordinary shares or on the conduct of the Company's operations. There are no restrictions under the Company's Memorandum and Articles of Association or under English law that limit the right of non-resident or foreign owners to hold or vote the Company's ordinary shares.

In the event that a person who is or was interested in ordinary shares fails to give the Company any information required by a notice given pursuant to Section 212 of the Companies Act 1985 (as amended) (the "Companies Act") (which confers upon public companies the power to require information with respect to interests in their voting shares) within the time specified in the notice, the Company may apply to the Court for an order, *inter alia*, that no voting rights be exercisable in respect of such shares and that no shares be issued or (except on liquidation) payment be made by the Company in respect of such shares. The Company may also withhold payment of dividends or other monies, and the holder shall not be entitled to attend or vote at general meetings, if (i) the Company has given notice to the registered holder (being a corporation or the holder of more than 0.01% of the voting rights in the Company) requiring the delivery of an ownership declaration by the beneficial owner pursuant to the Articles of Association (the "Articles") of the Company; (ii) no such declaration has been delivered during the period of 14 days since the service of the notice; and (iii) the Company has given a further notice to the registered holder in accordance with the Articles.

Under the Companies Act, any person who acquires (alone or, in certain circumstances, with others) a material interest in the voting share capital of the Company equal to or in excess of 3% or a non-material interest equal to or in excess of 10% comes under an obligation to disclose prescribed particulars to the Company in respect of those ordinary shares. An obligation of disclosure also arises where such person's notifiable interests subsequently fall below the notifiable percentage, or where, above that level, the percentage (expressed in whole numbers) of the Company's voting share capital in which a person has a notifiable interest increases or decreases.

Exchange Rates

The following table sets forth for the financial years indicated the average, high, low and period end Noon Buying Rates (i.e. the noon buying rate in New York City for cable transfers in foreign currencies as announced for customs purposes by the Federal Reserve Bank of New York) for pounds sterling expressed in US dollars per £1.00:

Table 7·4

Financial Year (a)	Average (b)	High	Low	Period end
1994	1.54	1.64	1.46	1.57
1995	1.58	1.64	1.53	1.55
1996	1.56	1.69	1.49	1.69
1997	1.64	1.70	1.58	1.64
1998	1.66	1.72	1.61	1.66

(a) The Company's financial year ends on the Saturday nearest to 31 December.
(b) The average of the exchange rates on the last day of each full month during the period.

On 2 January 1999, the Noon Buying Rate for pounds sterling was £1.00 = US$1.66. Fluctuations in the exchange rate between the pound sterling and the US dollar will affect the US dollar equivalent of the pound sterling prices of the Company's ordinary shares listed on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs in the US. Such fluctuations will also affect the US dollar amounts received by holders of ADSs on conversion by the Depositary of cash dividends paid in pounds sterling on the ordinary shares represented by the ADSs.

Taxation

This discussion of UK and US tax law considerations is intended only as a descriptive summary and does not purport to be a complete technical analysis or listing of all potential tax effects relevant to the ownership of ordinary shares or ADSs. The summary of UK and US tax laws set out below, (i) is based on the laws in force as of the date of this Annual Report and Form 20-F, and is subject to any changes in US or UK law, in any double taxation convention between the US and the UK or in UK Inland Revenue practice, occurring after the date hereof; and (ii) is based in part on representations of the Depositary and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement and any related agreement will be performed in accordance with its terms. This summary is not exhaustive of all possible tax considerations and holders of ordinary shares or American Depositary Receipts ("ADRs") representing ADSs are advised to satisfy themselves as to the overall tax consequences of their ownership of ordinary shares or ADRs and the ADSs and the ordinary shares represented thereby, by consulting their own tax advisors. This summary does not deal with the UK tax consequences to an Eligible US Holder (as defined below) that is resident, or in the case of an individual resident or ordinarily resident, for UK tax purposes in the UK or that carries on business in the UK through a branch or agency.

For the purpose of the current US-UK double taxation conventions and for the purposes of the US Internal Revenue Code of 1986, as amended, and the rules and regulations thereunder (the "Code"), discussed below, the holders of ADRs should be treated as the owners of the underlying ordinary shares represented by the ADSs that are evidenced by such ADRs.

The taxation treatment of dividends depends on whether the dividend is paid as a "conventional" dividend or as a "foreign income dividend" under the UK Finance Act 1994. The following discussion deals separately with the two types of dividend.

Taxation of Dividends

Changes in taxation from 6 April 1999 are detailed on page 145.

Taxation of Conventional Dividends

UK Residents

The Company is required when paying a dividend in respect of the ordinary shares to account to the UK Inland Revenue for a payment known as Advance Corporation Tax ("ACT"). The current rate of ACT is one-quarter of the cash dividend paid to shareholders.

An individual shareholder resident in the UK is treated for UK income tax purposes as having taxable income equal to the sum of the dividend paid to him/her and the tax credit attaching to the dividend. The tax credit is equal to one-quarter of the dividend and may be credited against the shareholder's UK Income Tax liability. The tax credit is sufficient to satisfy his/her lower or basic rate Income Tax liability in respect of the dividend, but further Income Tax at the higher rate may be payable or he/she may be entitled to a refund of all or part of the tax credit, depending on his/her personal circumstances.

US Residents

Under the Income Tax Convention between the US and the UK, the tax treatment depends on the status of each particular shareholder. An Eligible US Holder (as defined below) will be entitled in addition to the amount of the dividend to a payment of the tax credit to which a UK resident individual would have been entitled in respect of such dividend, subject to a withholding tax equal to 15% of the sum of the dividend paid plus such tax credit. For example, taking the tax credit at the current rate of one-quarter, payment to such Eligible US Holder (as defined below) of a dividend of, for example, £80, would be accompanied by a tax credit payment of £20 less a withholding tax of £15, giving a total net receipt of £85.

An Eligible US Holder means a holder of ADRs that is a corporation organised under the laws of the US or any state thereof or the District of Columbia ("a US Corporation") or a US resident individual. A holder of ADRs will not be an Eligible US Holder if (i) the holder is resident in the UK; or (ii) the holder holds the ADRs in a manner that is effectively connected with a permanent establishment in the UK through which such holder carries on business or with a fixed base in the UK from which such holder performs independent personal services; or (iii) in certain circumstances, if the holder is exempt from US federal income tax on dividend income; or (iv) in certain circumstances, the holder holds 10% or more of the ordinary shares of the Company. In addition, a US Corporation will not be an Eligible US Holder if (a) it is a corporation which, alone or together with one or more associated corporations, controls, directly or indirectly, 10% or more of the voting stock of the Company; or (b) in certain circumstances, it is an investment or holding company, 25% or more of the capital of which is owned, directly or indirectly, by persons who are not individuals resident in, and are not nationals of, the US.

In certain cases, the tax treatment under the Income Tax Convention described above may be limited or denied if the holder acquired the ADRs or ordinary shares primarily to secure the benefits of the Convention and not for bona fide commercial reasons.

Under arrangements made by the Company and the Depositary with the UK Inland Revenue, the UK tax credit payment, net of withholding tax, will be made by the Company on behalf of the UK Inland Revenue together with, and at the same time as, the associated dividend. Certain holders of ordinary shares or ADRs who are not entitled to receive payment of the tax credit from the Company under these arrangements must make an individual claim for a payment of the tax credit, net of withholding tax, in the manner and at the times described in US Revenue Procedure 80-18, 1980-1 C.B. 623 and US Revenue Procedure 81-58,1981-2 C.B. 678. Claims must normally be made within six years of the UK year of assessment in which the related dividend became payable (the year of assessment ends on 5 April). The first claim by a US holder of

US Residents continued

ordinary shares or ADRs under these procedures is made by sending the appropriate UK form in duplicate to the Director of the US Internal Revenue Service Center with which the holder's last Federal Income Tax return was filed. Forms may be obtained from the IRS Assistant Commissioner (International), 950 L'Enfant Plaza South, S.W., Washington, D.C. 20024, US. Because a claim is not considered made until the UK Inland Revenue has received the appropriate form from the US Internal Revenue Service, forms should be sent to the US Internal Revenue Service well before the end of the applicable limitation period. Any claim for payment of a tax credit by a US holder after the first claim should be filed directly with the UK Inspector of Foreign Dividends FICO (International), FitzRoy House, PO Box 46, Nottingham NG2 1BD, England.

The gross dividend (the sum of the dividend paid by the Company plus the related UK tax credit, if any) to a holder who is a US citizen or a US resident (as defined below) will generally be treated as foreign source dividend income for US Federal Income Tax purposes. The amount of any cash distribution paid in pounds sterling, including UK taxes withheld therefrom, will be the US dollar value of the pounds sterling payment on the date of receipt by the US holder (or, in the case of ADRs, by the Depositary), regardless of whether the payment is converted into US dollars. Gain or loss, if any, recognised on the sale or disposition of pounds sterling generally will be ordinary US source income or loss. Such dividend will not be eligible for the 70% dividends received deduction allowed to US corporations under Section 243 of the Code.

Subject to certain limitations on foreign tax credits generally, the applicable UK withholding tax will be treated as a foreign income tax eligible for credit against such shareholder's US Federal Income Taxes.

Special rules apply for the purposes of determining the dividend paid and foreign tax credit available to a US corporation which controls 10% or more of the voting stock of the Company.

As used herein, the term "US resident" includes an individual resident in the US for purposes of US tax, a US corporation and a foreign corporation or non-resident alien individual engaged in the conduct of a trade or business within the US with which a dividend or gain, as the case may be, on the ADRs or ordinary shares is effectively connected.

Others

Holders of ordinary shares or ADRs who reside in countries other than the US or the UK may be entitled to full or partial refunds of tax credit (subject to deductions for withholding tax) in respect of dividends depending, in general, on the provisions of the applicable double taxation conventions and agreements (if any) between such countries and the UK.

Taxation of Foreign Income Dividends ("FIDs")

UK Residents

On paying a dividend which it elects to be treated as a FID, the Company is required to pay ACT in the same way as for a conventional dividend. Subject to meeting certain conditions, the ACT, to the extent that it cannot be set off against other corporation tax liabilities, will be repaid to the Company nine months after the end of the year in which the FID was paid.

A shareholder resident in the UK who receives a FID is treated for UK income tax purposes as having received income on which UK income tax at 20% has been paid. However the tax deemed to have been paid, unlike the tax credit on a conventional dividend, cannot be repaid to shareholders who are not liable to tax.

US Residents

Because a FID does not entitle UK shareholders to a repayable tax credit, the provisions of the Income Tax Convention described above do not apply to FIDs. No UK tax refund will therefore be available in respect of a FID, and no UK tax will be withheld from the dividend. The amount of dividend income for US Federal Income Tax purposes will be equal to the net dividend received.

Others

For the reasons set out above, the provisions of double taxation conventions and agreements between the UK and countries other than the US will also not apply to FIDs, so that no refunds of UK tax will be available in respect of FIDs.

Changes in Taxation from 6 April 1999

Under the UK Finance (No. 2) Act 1997 and Finance Act 1998, significant changes will be made to the tax treatment of dividends paid after 5 April 1999. The requirement for the Company to account for ACT on payment of a dividend, and the ability to pay FIDs, will be abolished. The rate of tax credit available to UK shareholders will be reduced to one-ninth of the dividend paid, and the right to repayment of the tax credit will be abolished for all shareholders. The tax credit on dividends on shares held in Personal Equity Plans and Individual Savings Accounts will be repayable for a further five years. The rate of UK income tax charged on the dividend will be reduced to leave taxable UK resident shareholders with the same after tax income as at present.

US resident shareholders will be treated as receiving dividend income equal to the sum of the dividend and the tax credit, reduced by UK withholding tax at 10% which will be available as a foreign tax credit subject to the provisions of the Code. Thus, a US resident shareholder receiving a dividend of £90 will be treated as receiving taxable income of £100 less UK withholding tax of £10. No refund of UK tax will be available.

Capital Gains

UK Capital Gains Tax

The values at 31 March 1982 for the purposes of UK capital gains tax were:
ordinary shares of 25p each 98.5p 155.07p*

*155.07p is the adjusted price for shareholders who subscribed for their full entitlements under the rights issues in October 1993 and February 1995.

Taxation of Capital Gains for US Residents

Holders of ADRs or ordinary shares who are US resident individuals or US corporations, and who are not resident or ordinarily resident in the UK, will not be subject to UK taxation on capital gains realised on the disposal of their ADRs or ordinary shares, unless the ADRs or ordinary shares are used or held for the purposes of a trade carried on in the UK through a branch or agency.

A holder of ADRs or ordinary shares who is a US citizen or a US resident (as defined above) will generally recognise gain or loss for US federal income tax purposes on the sale or other disposition of ADRs or ordinary shares in an amount equal to the difference between the US dollar value of the amount realised and the holder’s tax basis in the ADRs or ordinary shares. Such gain or loss will be capital gain or loss if the ADRs or ordinary shares are held as capital assets, and will generally be long term capital gain or loss if the ADRs or ordinary shares were held for more than one year. Any such gain or loss will generally be US source gain or loss.

Taxation of Capital Gains for US Residents continued
Long term capital gains of individuals, under certain circumstances are taxed at preferential rates. Generally, individuals will be taxed on net capital gains on assets held for more than one year at a maximum rate of 20%.

Estate and Gift Tax

The current Estate and Gift Tax Convention between the US and the UK generally relieves from UK Inheritance Tax (the equivalent of US Estate and Gift Tax) the transfer of ordinary shares or of ADRs where the shareholder or holder of the ADRs making the transfer is domiciled, for the purposes of the Convention, in the US. This will not apply if the ordinary shares or ADRs are part of the business property of an individual's permanent establishment in the UK or pertain to the fixed base in the UK of a person providing independent personal services. If no relief is given under the Convention, Inheritance Tax may be charged on the amount by which the value of the transferor's estate is reduced as a result of any transfer made by way of gift or other gratuitous transaction by an individual (in general within seven years of death) or on the death of an individual. In the unusual case where ordinary shares or ADRs are subject to both UK Inheritance Tax and US Estate or Gift Tax, the Convention generally provides for tax paid in the UK to be credited against tax payable in the US or for tax paid in the US to be credited against tax payable in the UK based on priority rules set forth in the Convention.

Stamp Duty

No stamp duty or stamp duty reserve tax ("SDRT") will be payable in the UK on the purchase or transfer of an ADR, provided that the ADR (and any separate instrument or written agreement of transfer) remains at all times outside the UK and that the instrument or written agreement of transfer is not executed in the UK. Stamp duty or SDRT is, however, generally payable at the rate of 1.5% of the amount or value of the consideration or, in some circumstances, the value of the ordinary shares, where ordinary shares are issued or transferred to a person whose business is or includes issuing depositary receipts, or to a nominee or agent for such a person.

A transfer for value of the underlying ordinary shares will generally be subject to either stamp duty or SDRT, normally at the rate of 0.5% of the amount or value of the consideration. A transfer of ordinary shares from a nominee to its beneficial owner (including the transfer of underlying ordinary shares from the Depositary to an ADR holder) under which no beneficial interest passes is subject to stamp duty at the fixed rate of £0.50 per instrument of transfer.

Close Company Status

So far as the Directors are aware the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company and there has been no change in that position since the end of the financial year.

Glossary

Terms used in this Annual Report	US equivalent or brief description
Accounts	Financial statements
Advance corporation tax	No direct US equivalent. Tax paid on company distribution recoverable from UK taxes due on income
Allotted	Issued
Associated undertaking	Generally a 20-50% owned investee
Brands	Trademarks
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank	Cash
Creditors	Accounts payable/payables
Creditors: Amounts falling due after more than one year	Long-term liabilities
Creditors: Amounts falling due within one year	Current liabilities
Debtors	Accounts receivable/receivables
Fair values	Current values
Finance lease	Capital lease
Financial year	Fiscal year
Fixed tangible assets	Property, plant and equipment
Freehold	Ownership with absolute rights in perpetuity
Freehold land	Land owned
Gearing	Leverage
Group, or consolidated accounts	Consolidated financial statements
Interest receivable	Interest income
Interest payable	Interest expense
Loan capital	Long-term debt
Net asset value	Book value
Pension scheme	Pension plan
Profit	Income (or earnings)
Profit and loss account (reserve)	Retained earnings
Profit and loss account	Income statement
Profit attributable to ordinary shareholders	Net income
Reconciliation of movements in shareholders' funds	Statement of changes in stockholders' equity
Reserves	Stockholders' equity other than capital stock
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share option	Stock option
Share premium account	Additional paid-in capital relating to proceeds of sale of stock in excess of par value or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Shareholders' funds	Stockholders' equity
Stocks	Inventories
Tangible fixed assets	Property, plant and equipment
Turnover	Revenues (or sales)

Cross reference to Form 20-F

The information in this document that is referred to below shall be deemed to be part of the annual report on Form 20-F for 1998 and is therefore filed with the Securities and Exchange Commission in the US for all purposes and is the only information that is intended to be so filed or incorporated by reference into any filing by the Company under applicable US securities laws. References below to major headings include all information under such major headings, including subheadings. References to subheadings include only information contained under such subheadings.

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The noon buying rate on 24 February 1999 was £1=US$1·60.

Forward looking statements

Forward looking statements, within the meaning of Section 21E of the US Securities Exchange Act of 1934, are made throughout this Report. Forward looking statements are based on management's current views and assumptions, and involve risks and uncertainties that could significantly affect expected results. For example, results may be affected by external factors such as: international economic and political conditions (including worsening economic conditions in developing countries in which the Group has operations); currency rate fluctuations; actions of competitors, certain of which have resources greater than the Group; changes in laws and regulations, including changes in accounting standards; difficulties in obtaining governmental approval for intended acquisitions or disposals; distributor and licensee relationships and actions; consumer demand and acceptance of new products; effectiveness of spending and marketing programmes; fluctuations in the cost and availability of raw materials; and unusual weather patterns.

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Enquiries

For enquiries regarding shareholdings that are not appropriate for either of the Registrars or the ADS Depositary, please contact the Secretary.

For enquiries of a general nature regarding the Company and for Investor Relations enquiries, please contact Corporate Communications.

Cadbury Schweppes plc
25 Berkeley Square
London W1X 6HT
Telephone: 0171-409 1313
(44) 171-409 1313

http://www.cadburyschweppes.com

The Company's commitment to environmental issues has been reflected in the production and despatch of this Annual Report and Form 20-F.

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