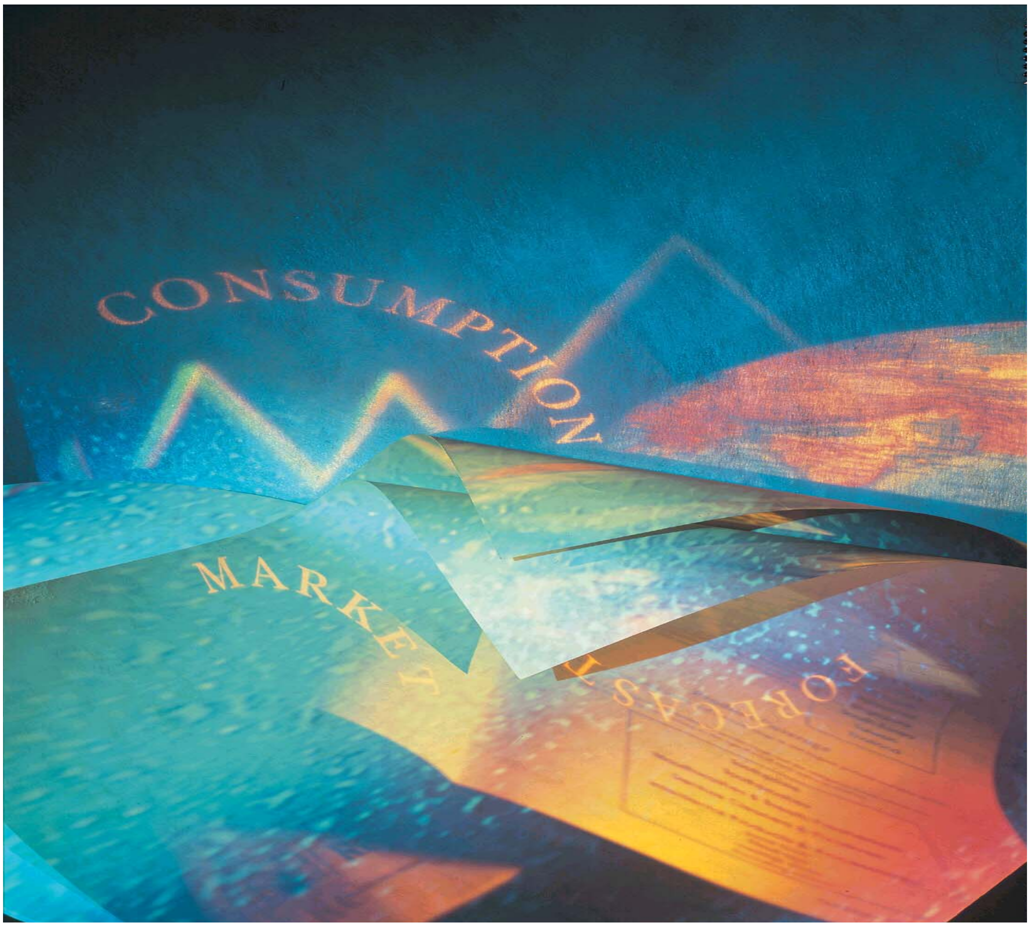
Baby Nutrition Insights



A Quarterly Review of the latest News & Analysis for the Infant Formula and Baby Food Industry

Issue 4 - July 2010

ERC

Baby Nutrition Insights

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MARKET NEWS

Australia

- The baby meals market is reported to be valued at A$ 131 million, according to Nielsen, and up by 7.3%. Although Heinz remains clear leader, small-scale organic companies are making strong headway, with organic products (from Heinz as well as organic specialists) accounting for 48.1% of sales in 2009. Rafferty's Garden has now achieved a 26% share of the wet meals market which had until recently been virtually monopolised by Heinz and now ranks second. It has achieved this despite its products retailing at a premium to Heinz. Only Organic has moved into third place, with Danone's Golden Circle now demoted to fourth position.

- Heinz has launched Farex ready-to-eat breakfast cereals in 125g microwavable pouches. There are four products: Peach, Apricot & Rice Fruity Breakfast and Banana & Rice Fruity Breakfast for babies aged 4-6 months; and Apple & Oatmeal Fruity Breakfast and Baby Porridge Creamy Breakfast for babies of 7-9 months. The products contain inulin, a prebiotic, to aid digestion and the immune system.

Austria

- Sales of the Aptamil brand have been boosted by the introduction of Aptamil 2+ (now being launched in Germany). Since the launch of Aptamil 2+ in April 2009, the overall Aptamil brand has achieved 35% growth.

  The infant formula market was worth €43 million in 2008 and has grown by 33.5% since 2002 (17.9% at constant prices) volumes stood at 3,495 tonnes in 2008 (at dehydrated weight), equivalent to 44.95 kgs per baby born.

  Milupa (now owned by Danone, which purchased Numico's baby food business in 2007) is the leading player in baby milks in Austria and enjoys a convincing lead over its closest competitor, Nestlé. Overall, Milupa took 66% of the baby milks market by value (62.5% by volume) in 2008. The company is strong across all three segments of the milks market, and it now has a monopoly on sales of specialist milks through grocery outlets, as well as leading the hypoallergenic segment. It offers a wide range of products under the Aptamil and Milumil brands.

  Nestlé is Milupa's closest rival although not close enough to present a serious challenge, with a market share of 18% in value in 2008. Nestlé's principal baby milk brand in Austria is Beba, and its Alete range appears to be being subsumed within the Beba brand. The Beba range includes a wide range of breast milk substitutes from birth onwards, including hypoallergenic, first stage and follow-on products. Its Beba 3 brand held a 22% share, ranking it second in the growing-up milks segment, in 2007.

  Hipp ranked in third place overall in 2006 with 15.5% of value sales. In July 2007, the company had to withdraw some of its Hipp HA1 baby milks from stores in Austria due to bacterial contamination, but nonetheless has continued to gain share.

  Between 2002 and 2004 Milupa increased its value share by just over three percentage points, taking share mainly from Nestlé, whose share fell by 2.3% points. Since 2004, however, Hipp has performed very strongly in grocery outlets and has taken share from all the other manufacturers, increasing its value share by almost six percentage points, and has now moved into second place in volume terms with 18.5%, marginally ahead of Nestlé by this measure.

The German company Humana has a small presence; it is stronger in first than in second stage milks, and held a 0.3% share of value but 0.8% of volume in 2008, with its Lasana brand the cheapest product on the market. Ja! Natürlich, the organic line produced for the Billa and Merkur retail chains is active with a second stage milk. The dm drug market chain also fields a range of own-label milks under its babylove name. In June 2009 these were all converted to organic status. A more recent entrant is Gittis, which began marketing first, second and third stage organic formulae in 2009, while Maresi the leader of the cereals sector in volume terms, has now entered the milks sector with a ready-to-drink growing-up milk under its Himmeltau brand.

Austria, Milks: Manufacturer Shares, Value, 2002-2008

	%			
	2002	**2004**	**2006**	**2008**
Milupa	63.0	66.2	64.2	66.0
Nestlé	26.1	23.8	20.9	18.0
Hipp	9.2	8.2	13.9	15.5
Humana	0.7	1.2	0.7	0.3
Others	1.0	0.6	0.3	0.2
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: ERC estimates based on trade sources, AC Nielsen.
Note: Sales through grocery outlets only.

Belgium

- Retail chain Delhaize has launched a range of own-label baby food under the Delhaize Baby name. Delhaize guarantees the traceability of all ingredients used in the range. Delhaize Baby comprises a follow-on milk (6-12 months), a growing-up milk (12-36 months), fruit purées (from 4 months and from 6 months), vegetable purées (from 6 months) and meals in dishes (8-18 months). Delhaize claims that using the Delhaize Baby range in place of branded baby foods can save parents €169 in the first year of a baby's life, €395 in the second year and €380 in the third year, representing a 24% saving overall.

- Of the baby milks available in pharmacies, 24% are anti-reflux formulae, 27% are hypoallergenic and 9% formulae for babies with cow's milk allergy.

- Hero's Friso-subsidiary has introduced Friso Nutradefense milk designed to assist with weaning. It contains nucleotides, long-chain polyunsaturated fatty acids (DHA and ARA) and prebiotics. Friso Nutradefense is available in three variants (0-6 months, 6 months+, 10 months+) in packs of 2x400g priced at €9.50 to €10.90, depending on the variant. It is to be sold via large-scale grocery outlets.

- Menarini has extended its Novalac range with Novalac Allernova AR, designed for babies with cow's milk allergy and/or reflux. Novalac Allernova AR contains hydrolised casein for babies with cow's milk allergy, and maize starch to counter reflux.

- Bambix Complete Care is new from Danone. It is a growing-up milk targeted at babies from the age of one year, with a high iron content, and also fortified with vitamin D and Omega 3. It contains no added sugar and has a low protein content.

- Carrefour has extended its range of own-label baby meals from 18 to 24 lines.

- The Blédichef range of meals in dishes (now owned by Hero) is being launched in new packaging. The new packs are more brightly coloured, use less packaging than previously and are easier to open. The products now also carry the Friso co-branding.

- Hero has launched Blédina Fruit Smoothies for babies aged 6-36 months in aseptic cartons. Fruit Smoothie can be fed in a baby bottle or a cup, or for older toddlers, using the attached straw. Fruit Smoothie is available in two varieties: banana & mango, and peach & pear.

Bulgaria

- A bill to ban the use of GMOs in baby food has passed its first reading.

China

- The Consumers Association reports that the illegal marketing of breast milk substitutes continues, undermining breastfeeding. The Consumers' Association has been monitoring the situation in 45 cities since 2007, and reports that in 2009 it discovered 1,872 breaches of the rules, such as offers of free gifts, price promotions, the distribution of promotional brochures etc.

  Added to this is the problem of early weaning due to pressures to return to work. Although women have the right to two half-hour breastfeeding breaks in the working day, few women are aware of this right, and it is often, in any case, not practical for mothers to return home to feed their baby or to pump breast milk at work (lack of clean facilities for pumping, lack of refrigerated storage etc). As a result, while 67% of babies are breastfed at 6 months according to a Ministry of Health Survey, only 25% are exclusively breastfed. There are local and regional variations: in Xicheng, for example, 96.9% of babies are receiving some breast milk at 6 months of age.

- It is reported that Yili is launching infant cereals to compete with those from Heinz and Nestlé.

- Mead Johnson raised prices of its infant formulae in the first part of the year. This notwithstanding, it reports volume growth of about 7% in the first quarter. A third of its growth came from cities which it had entered over the last year. The company plans to expand the number of cities in which its products are marketed from 140 at the end of 2009 to approaching 200 by the end of 2010.

France

- The French baby food market through grocery outlets saw a 2.1% drop in value sales in the year to the end of March 2010, despite a decline of less than 1% in the number of babies born. The decline is thought to be largely attributable to the financial crisis, which has encouraged parents to make their own baby food, prolong breastfeeding and switch earlier to cow's milk. In addition, the pressure in the market has depressed prices.

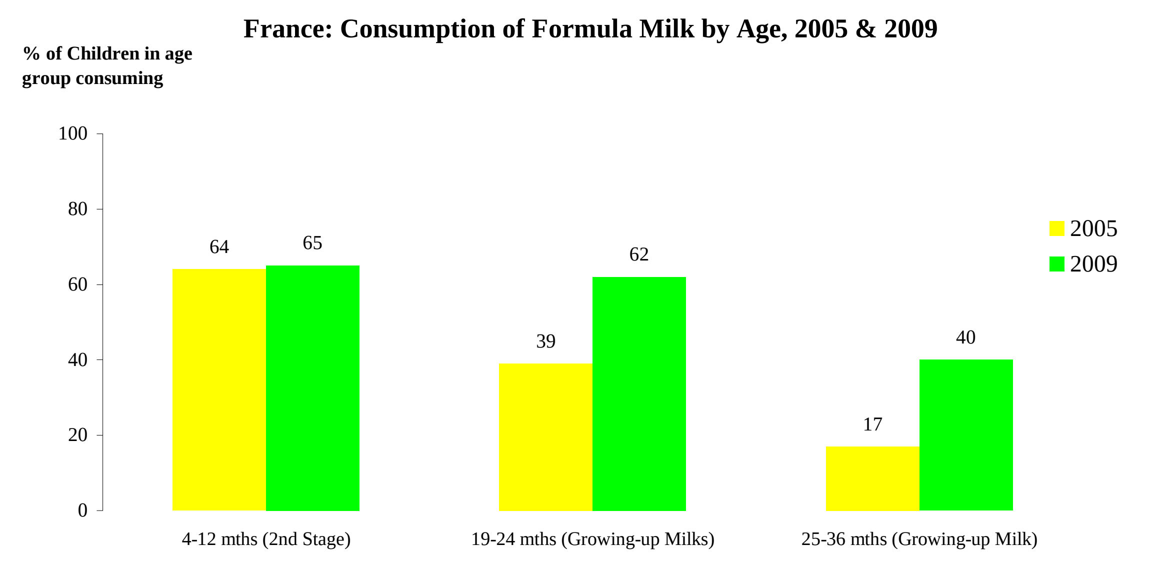
France: Retail Sales of Baby Foods Through Grocery Outlets, 2009 & 2010

	€ Million		**% Change**	**% Breakdown**	
	2009(1)	**2010(1)**		**2009(1)**	**2010(1)**
Baby Foods	560.6	557.8	- 0.5	55.1	56.0
Baby Milks	397.5	387.5	- 2.5	39.1	38.9
Liquid Milks for babies(2)	59.5	50.7	- 14.8	5.8	5.1
TOTAL	**1,017.6**	**996.0**	**- 2.1**	**100.0**	**100.0**

Source: ERC based on Nielsen (baby foods & milks), IRI (liquid milks).
Note: (1) MAT to end March.
(2) Excludes sales through hard discounters (minimal).

- Milks have been the worst hit sector, with baby milks (mostly powdered) falling by 2.5% and liquid milks for babies (sold alongside UHT milk, rather than on the baby food aisle) down 14.8% in value. A rise in breastfeeding rates has been one factor behind this: between 2007 and 2009, the proportion of women breastfeeding at the maternity clinic rose by four percentage points to 66%, according to a Nestlé/TNS Sofres survey. Average breastfeeding duration has also increased by two weeks. The strongest decline in milks sold in the baby food aisle has been in second stage milks, which saw a 12% value decline in the year to the end of March, as they have ceded share to first stage milks following the change in definition which means that first stage milks are now designated as for babies up to six months, rather than the previous four months. In addition, they are also losing share to powdered growing-up milks, which have grown strongly following their arrival on the market in 2008: by April 2010 these products were valued at €14 million (about 3% of the total milks market), having risen fivefold on the previous year. This phenomenon is also undoubtedly a factor behind the sharp fall in sales of liquid UHT milks, as powdered products are cheaper on a per-feed basis, easier to transport home, and more familiar to mothers, who primarily use powdered versions of first and second stage milks. Although first stage milks have held up better, sales still fell by 3% in the year to March 2010, the decline in the number of births, increased breastfeeding prevalence and prolonged breastfeeding duration countering the effect of the boost to first stage milks emanating from the change in definitions. Both first and second stage milks also continue to lose share to pharmacies, where sales rose by 4.4%.

- This notwithstanding milks formulated especially for babies at various stages of their development are widely used and are the predominant type of milk used for babies aged 4-24 months.



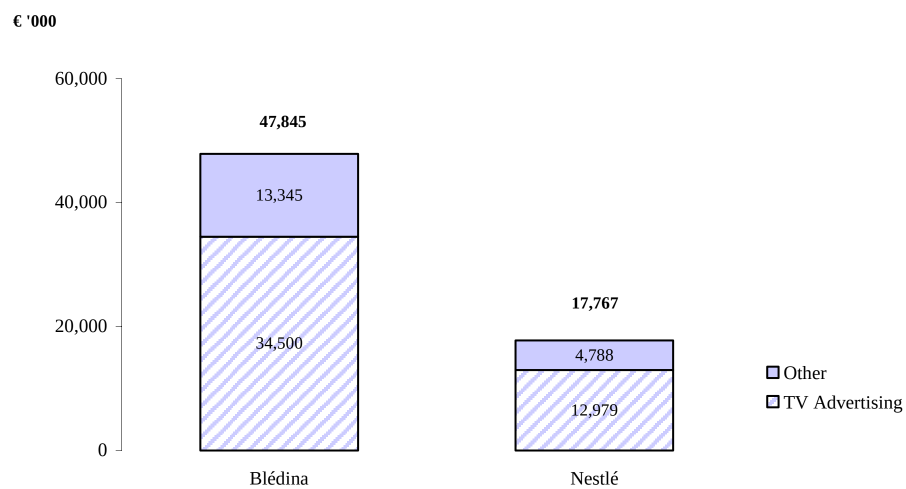
Source: ERC based on TNS Sofres & In Vivo BVA, Syndicat Français des aliments de l'enfance

- Nestlé has increased its value share of baby milks sales to 39.7% in the year to the end of March 2010, up from 39.4% in 2008 (grocery outlets only).

- Baby foods have held up better than the milks sector, reporting a sales decline of just 0.5% in the year to the end of March 2010. Here too, though, there are winners and losers. Savoury meals in jars, for example, have seen a 13.4% decline in sales, while meals in plastic pots increased by 30%.

- The leadership of the market is hotly contested between Danone and Nestlé, and both companies invest heavily in promotional support for their brands. However, Danone outspends Nestlé by almost 3:1. Television advertising dominates, accounting for nearly three-quarters of the expenditure of both players.

France: Advertising Expenditure by Leading Baby Food Manufacturers, 2009



Source: ERC based on Yacast, Points de Vente

- The market for organic baby foods remains buoyant despite the difficult economic times: sales grew by 15.5% in the year to the end of March 2010, and now represent nearly 4% of baby food sales. The two leaders, Hipp and Vitagermine, report even better progress for their sales, each up by 26% in the year to the end of April.

  Organic products are now beginning to make their mark in the milks sector, and grew by 30% in value in 2009. This sector is attracting a lot of attention, with a number of new entrants recently, including Eveil Bio, a liquid growing up milk free from added sugar and flavourings, from Lactalis; Nutricia 1 and 2 organic powdered formulae (also Lactalis): Vitagermine with a powdered growing up milk and a liquid range as well as an improved variant of its second stage milk, to be launched as Babybio Optima Lait de Suite Bio in September; and Wessanen with its Bjorg follow-on formula with bifidus. Neither of the leading suppliers - Nestlé and Blédina (Danone) - have yet shown signs of moving into the organic milks sector.

- A new entrant to the French infant formula market is Wessanen via its Distriborg subsidiary, with the Bjorg brand of organic formulae, which are also free of palm oil, the use of which has recently become a highly contentious issue due to its environmental impact. The range includes first and second stage formulae, both enriched with bifidus, and a growing-up milk. The products will be available via Carrefour, Auchan and E Leclerc outlets.

- Sodiaal has launched powdered versions of its Babylait brand in first, second and growing-up variants, free from palm oil. 900g tins will retail at €10.25-10.75.

- New to the baby meals sector is the Good Goût range, produced by a start-up company founded by two parents disappointed with the quality of conventional baby meals. The range comprises eight organic meals for babies aged six months+. The recipes have been designed by a renowned chef. Each product comprises at least 60% of the named main ingredient. The recipes have each been checked for nutritional balance by the Pasteur Institute. They are packaged in pouches and retail at €2.99. The products will be available from July in organic outlets and via the Internet, and eventually also in town centre supermarkets.

- Vitagermine is extending its range with dairy-based sweet meals in jars under the Babybio name. There are two ranges both packed in 130g jars (also available as multipacks of 2x130g). Douceur de Lait comprises biscuit-based meals with milk: plain, from 6 months, and with cocoa from 8 months. Crème aux Fruits are fruit purées with cream for babies aged 6 months+, in four variants: apple/banana, apple/blueberry, pear and apple/biscuit.

- Both Danone and Vitagermine have introduced new baby biscuits. Danone's Blédina has introduced two products under the Blédiscuit name: Blédiscuit Boudoir, a reduced sugar biscuit for babies aged 10 months+, and Blédiscuit Croissance, a chocolate flavoured biscuit for toddlers of over 12 months. Vitagermine's offering is also targeted at older babies (15 months+): Babybio Biscuits Croissances Bio in packs containing eight sachets of 2 vanilla biscuits.

- Les Menus Bébé, premium frozen baby meals, have now penetrated the pharmacy sector, albeit currently only on a small scale. In April the company announced that its freezers were to be located in ten pharmacies in Paris.

- The French parliament has banned the use of bisphenol A in baby bottles, but has postponed a decision on its use in packaging, including that of baby food, until 2011.

Germany

- In 2009, baby food sales rose by 0.8% to €671.2 million. Milks account for 37% of this, but have seen a slight drop in their share, as sales value fell by 0.8% to €248.2 million. Meanwhile, other baby food increased sales by 1.7% to €423 million.

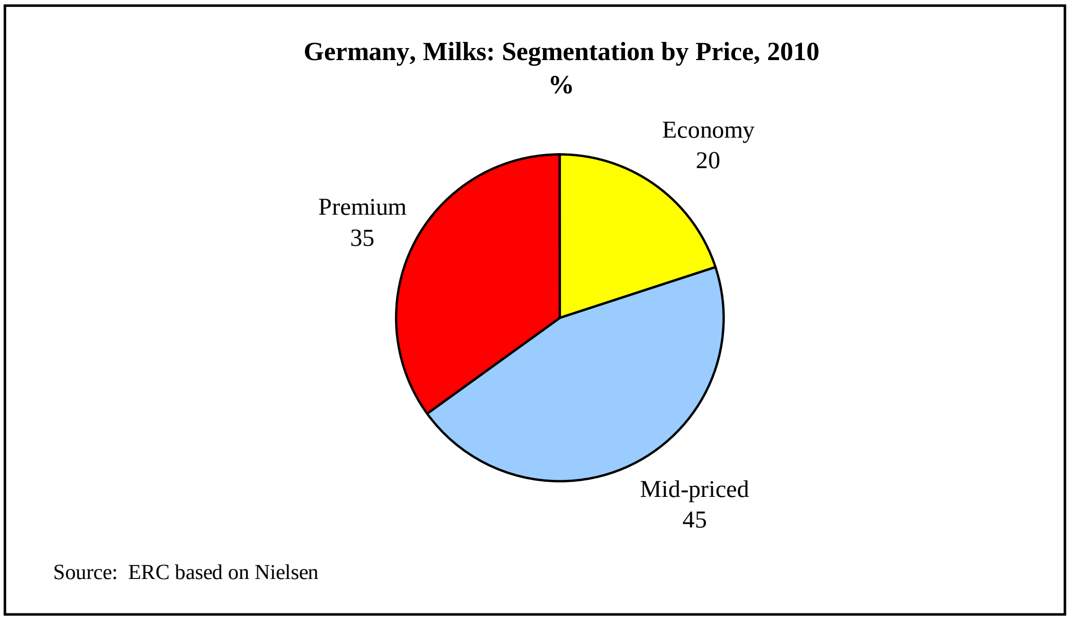
Germany, Baby Food Sales by Sector, 2008 & 2009

	€ Million		**%**	
	2008	**2009**	**2008**	**2009**
Milks*	250.1	248.2	37.5	37.0
Other Baby Food	416.0	423.0	62.5	63.0
TOTAL	**666.1**	**671.2**	**100.0**	**100.0**

Source: ERC based on Nielsen, Lebensmittel Zeitung.
Note: * Excludes toddler milk (1 year+)

- Drug markets continue their inexorable rise in the distribution of baby food and baby care sales, accounting for 59% in total in 2009. They account for 65% of baby milks. Meanwhile, the share of sales of baby food and baby care taken by hypermarkets has fallen to below 30%, although they represent 34% of baby foods other than milks.

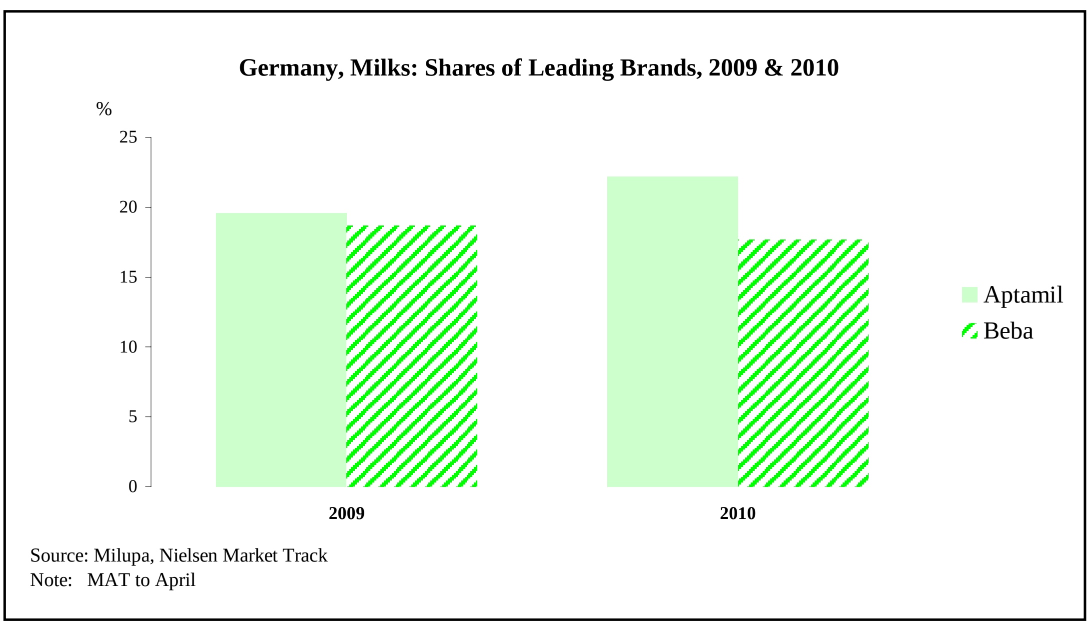
- Economy brands are gaining share of the milks sector, and now account for about a fifth of sales. Brands in this sector include Bebivita, Milasan, Lasana and own-labels. The mid-priced segment (Humana, Milumil, Alete) is the largest sector but is losing out to low-priced products. The premium segment (Aptamil and Beba) represents over a third of sales.



- Toddler milk (for babies aged 1+) is the fastest growing segment of the milks market, with volumes up by 72% in 2009. Although it is a small segment - valued at €21.2 million, and thus accounting for just 8% of milks sales - it is already larger than the teas or meal drinks segments.

  Milupa pioneered this segment and has constantly been at the forefront of innovation. As a result it claims about 60% of sales. Hipp accounts for the majority of the reminder via its Hipp and Bebivita brands, with shares of 22% and 14% respectively. Nestlé accounts for the remainder of sales and has plans to introduce a hypoallergenic variant later in the year. Humana has just entered the market with a new low priced brand, sold as Humana 4, for babies from 12 months+. It had previously withdrawn its Humana Junior Drink due to low sales.

- In the milks sector, Danone's Aptamil brand is continuing to pull away from Nestlé's Beba, and is now 4.5 percentage points clear of it.



- Humana has introduced a lower priced range to compete with Hipp's Bebivita and Nestlé's Milasan. Humana itself already fields the low-priced Lasana range, but this has failed to make much impact on the market and has less than 1% of the milks market. The existing Humana range holds about 7% of milks sales, but it has been losing share, with Bebivita the main brand to be making headway as consumers exhibit a growing level of price consciousness. A 500g box of starter formula is priced at €3.79, nearly 50% cheaper than the Humana standard range segment, which is positioned in the mid-priced segment.

  The new range comprises stage 1-4 milk, milk cereals, ready-to-feed cereals and desserts. All are packaged in purple, to differentiate them from the standard Humana Plus range.

- From April Hipp has been marketing a new Hipp Plus range of formulae, fortified with prebiotics and probiotics. It is available in first and second stage variants in both standard and hypoallergenic versions.

- Milupa is extending the Aptamil milks range with the first milk specifically designed for toddlers of 2 years+. Aptamil Kinder-Milch 2 has a reduced fat and protein content, and is fortified with iodine, iron, vitamin D, vitamin C, essential fatty acids and prebiotic fibre. A 550g box is priced at about €6.99. The launch has been supported with print and TV advertising and coupons, as well as mailings to paediatricians.

- Milupa has extended its toddler cereals range - and the target audience - adding Mein Müsli with banana, for children from 1½ years, to the existing Mein erstes Müsli, with fruit, from 1 year.

Hungary

- In April apple & raspberry fruit meals under the Ovko name from Slovak company Novofruct were withdrawn from Tesco stores after reports that they were contaminated with captan, a pesticide with potentially carcinogenic effects. Subsequently tests carried out by an independent German laboratory confirmed that the products were, in fact, safe, with captan residues below 0.005mg per kg, well below the European standard of 0.01mg per kg. The products have now been returned to the shelves.

Ireland

- In 2009 the Irish baby food market came under pressure, as a rising number of parents took advantage of lower prices north of the border. In response, Irish retailers started cutting prices of some infant formulae by as much as 40% in May 2009. Other retailers soon followed suit. Although these moves helped to encourage Irish parents to shop locally, bolstering volume sales, value sales were depressed as a result of the price discounting.

- Cow & Gate has extended its Little Gourmet range by adding a number of varieties for toddlers (12-36 months). The three varieties are Beef Fasciole, Chicken Cacciatore and Creamy Cod Bake. The products are in packs of two foil-sealed plastic bowls.

Italy

- Although 81% of mothers in Italy breastfeed, just 58% practise exclusive breastfeeding.

- Since its entry onto the market in 2005, with the aim of reducing the price of infant formulae, the Neolatte brand has contributed to a 50% price drop. For example in 2005 a kilogramme of Mellin 1 retailed at €45, but is now on the market at about €20. The Neolatte brand from the Unione Farmacisti Trentiono Alto Adige (Unifarm) was launched at a third of the price of most branded milks, achieving its low price via the avoidance of spending on promotion or on building relationship with healthcare professionals to encourage them to recommend the brand to new mothers - both tactics widely used by the branded manufacturers. Neolatte garnered a 28% share of sales of milks through pharmacies within three years of its launch, benefiting both from its low price positioning and organic ingredients. It has now raised this share to 30%.

  Sales of Neolatte are higher in the North than in the South of the country, due to the presence in the North of a greater proportion of well-educated and discriminating women. However, sales are gradually expanding in the Centre and South of the country. Much of the product's expansion is due to word of mouth recommendation.

  Price is a key purchasing determinant for infant formulae: in a survey conducted by Nielsen among mothers in January-April 2010, for 80% price was the main reason for purchasing their formula in large-scale grocery outlets, while 68% quoted price as the key criterion for not purchasing in pharmacies. The main reasons for shopping in pharmacies are loyalty, specialisation and quality, alongside the presence of staff who are qualified to give advice.

- Mellin (Danone) has promoted its Mellin Latte 2 follow-on milk via a parents' and family website, www.guidagenitori.it. The promotion comprised both advertising boxes and editional content.

Malaysia

- In recent years the Malaysian market has become even more concentrated than it already was. At the end of 2004, three major companies held 64% of volume sales; by the end of 2008, following Danone's takeover of the Numico brands and Nestlé's acquisition of Gerber, three companies held 78.6% of value sales. Danone (Nutricia and Dumex brands) was in the lead with a share of 34.4%, ahead of Dutch Lady with 23.5% and Nestlé (Nestlé and Gerber brands) with 20.7%. No other brand holds more than 6% of the market.

  As the majority of the market consists of milks, dominance in this sector ensures dominance in the whole market. In addition to leading in the milks sector, Danone Dumex brands are also well placed in cereals. This gives the brand a clear lead over Dutch Lady, which is in second place in the milks sector and absent from other sectors. Following its acquisition of Gerber, Nestlé is now present in all market sectors. Its Nestlé products lead in the cereals sector, while Gerber dominates meals and baby drinks. Fonterra (previously known as New Zealand Milk) is in fourth place in milks, some way ahead of Mead Johnson, Abbott and Wyeth. Heinz, Nestlé's only serious rival in meals, drinks and rusks, has a share of only 3.3% overall, due to the relatively low importance of meals, drinks and rusks in the market, despite its importance in these sectors.

  Other suppliers are confined almost entirely to the milks sector and include Snow Brand and Morinaga from Japan, Novalac (United Pharmaceuticals) from France and, recently, Nutritek from Russia. Kalbe from Indonesia has also made some impact in the rusks sector.

Malaysia: Baby Food, Manufacturer Representation (Value), 2008						
	%	Milks	Cereals	Meals	Others	Total
Danone	**34.4**			-	-	
Dutch lady	**23.5**		-	-	-	
Nestlé	**20.7**					
Fonterra	**5.2**		-	-	-	
Mead Johnson	**3.5**		-	-	-	
Heinz	**3.3**	-				
Others	**9.4**			-		

Source: ERC estimates based on trade sources.

Key

0 - 5%
5.1% - 10.0%
10.1% - 20.0%
20.1% - 30.0%
30.1% - 40.0%
40.0% +

Malaysia: Baby Food, Manufacturer Representation (Volume), 2008						
	%	Milks	Cereals	Meals	Others	Total
Danone	**35.5**			-	-	
Dutch Lady	**26.2**		-	-	-	
Nestlé	**21.2**					
Heinz	**2.9**	-				
Others	**14.2**			-		

Source: ERC estimates based on trade sources.

Key

0 - 5%
5.1% - 10.0%
10.1% - 20.0%
20.1% - 30.0%
30.1% - 40.0%
40.0% +

Peru

- Breastfeeding is the norm among poorer classes, who cannot afford to pay for breast milk substitutes. As poverty is still a major problem for the Peruvian government, a large number of mothers face no choice but to breastfeed. The poorer areas of the country are in central and eastern Peru, where breastfeeding is thought to be almost universal. Wealthier consumers tend to live in the more populous coastal regions of Peru, as well as in the capital Lima, which is where the practice of feeding babies with breast milk substitutes is thought to be more common. Nevertheless, breastfeeding is initiated by the vast majority of mothers, regardless of location.

  The latest breastfeeding survey conducted in 2007-2008, covering children born in the previous five years, shows a mixed picture in terms of trends since 2000. Initiation of breastfeeding remains almost universal and rising slightly, at 98.7% in 2007-2008. 91.7% were breastfed during the first day (56.0% within an hour of birth, well up on the 2004-2006 level of 47.5%). These high levels of breastfeeding were prevalent in all regions and social groupings. However, exclusive breastfeeding was more widespread among the rural population with lower levels of education: in urban areas 34.3% of babies were given other products within the first three days of life, before the establishment of regular breastfeeding, compared to a figure of 14.5% in rural areas. Levels of supplementation had risen sharply in urban areas, up from 28.4% in 2000, while in rural areas there had been a decline from the 2000 level of 21.6%. Women with further education were significantly more likely to supplement with other products (45.3%) than those with no formal education (just 13.7%).

Peru, Breastfeeding Initiation by Socio-Demographic Factor, 2000-2008			
	% of Babies ever Breastfed		
	2000	**2004-2006**	**2007-2008**
By Sex of Baby			
- Male	97.5	98.6	98.8
- Female	98.1	98.1	98.5
By Area			
- Urban	97.6	98.0	98.4
- Rural	98.0	98.9	99.1
By Education of Mother			
- No Education	98.1	98.9	99.2
- Primary Education	97.9	98.7	98.9
- Secondary Education	97.8	98.5	98.8
- Further Education	97.4	97.2	98.1
TOTAL	**97.8**	**98.4**	**98.7**

Source: ENDES Demographic & Health Surveys.
Note: Based on children born in the previous 5 years.

The 2007-2008 survey found that nearly all babies aged less than 4 months were breastfed (99.1%), the number of non-breastfed babies rising to 3.5% at 6-9 months. Thus even at nine months of age, over 95% of all babies were receiving some breast milk. These figures all show an improvement in the rate of breastfeeding over 2000. However, exclusive breastfeeding rates have dropped a little. In 2007-2008 75.9% of babies of 0-1 month were exclusively breastfed, compared with 78.8% in 2000. There had been a sharp drop in the exclusive breastfeeding rate among babies aged 2-3 months from 67.4% in 2000 to 59.9% in 2004-2006 but in the 2007-2008 survey this has recovered to 68.7%. Likewise, the proportion of babies in the 4-5 month group who were still exclusively breastfed fell from 57.1% in 2000 to 53.3% in 2004-2006, but rose to 56.6% in the 2007-2008 survey. At six months, two-thirds of babies were still being exclusively breastfed. Most babies in the 6-9 month category are also given solids. Partial breastfeeding is much more widespread, with 75.7% of babies in the 12-18 months age category still partially breastfed, and at 24-35 months, 21.1% of babies were still being breastfed to some extent in 2007-2008.

Peru, Levels of Exclusive Breastfeeding & Supplementation, 2007-2008					
	%				
	Not Breastfeeding	**Exclusive Breastfeeding**	**Breastmilk + Water/Juice**	**Breastfeeding + Infant formula**	**Breastfeeding + Solids**
<4	0.9	71.8	3.2	23.1	0.9
<6	0.7	66.6	4.5	21.6	6.6
6-9	3.5	8.0	2.8	2.6	83.5
<2	0.1	75.9	2.6	20.3	1.1
2-3	1.5	68.7	3.7	25.4	0.8
4-5	0.5	56.6	6.9	18.8	17.2
6-8	3.5	10.3	3.1	3.4	79.8
9-11	4.1	0.6	0.1	0.4	94.9
12-17	24.1	0.1	0.1	-	75.7
18-23	45.9	0.1	-	0.1	53.9
24-35	78.9	-	-	-	21.1

Source: ENDES Demographic & Health surveys.

Despite the fact that an increasing proportion of babies are receiving some breast milk up to a greater age than previously, the average duration of breastfeeding has dropped by nearly one month between 2000 and 2007-2008 to 20.7 months. Breastfeeding duration remains higher among rural than urban mothers, but the duration of exclusive breastfeeding has dropped sharply in urban areas. There is a clear correlation between the length of breastfeeding and the level of education, with better educated women, who are more likely to have careers and to return to work early, having much shorter breastfeeding duration than those with lower levels of education.

Peru, Duration of Breastfeeding by Socio-Demographic Factor, 2000 & 2007/08

	Months					
	Total Breastfeeding		**Exclusive Breastfeeding**		**Exclusive Breastfeeding/ Breastfeeding & Water/Juice**	
	2000	**2007/2008**	**2000**	**2007/2008**	**2000**	**2007/2008**
By Sex of Baby						
- Male	21.6	20.3	4.2	4.0	4.9	4.4
- Female	21.5	21.1	4.3	4.2	5.0	4.7
By Area						
- Urban	20.7	18.5	3.4	3.4	4.0	4.1
- Rural	22.2	22.2	5.0	4.9	5.6	5.1
By Education of Mother			5.0			
- No Education	25.4	22.5	4.7	5.1	5.3	5.1
- Primary Education	21.9	22.0	4.2	4.8	5.4	5.1
- Secondary Education	22.0	20.9	2.3	4.0	4.7	4.7
- Further Education	17.4	15.5		0.7	3.7	2.7
TOTAL	**21.6**	**20.7**	**4.2**	**4.1**	**4.9**	**4.6**

Source: ENDES Demographic & Health Surveys.

Although breast milk substitutes are limited to well off consumers, even these consumers often opt for standard powdered milks or evaporated milks to feed their babies as second stage milks, as they are cheaper than follow-on milks. First stage milks, however, are not commonly replaced with standard milks, and the main consumers of these milks are wealthier consumers, who can afford the high prices. It is among this group of consumers that breastfeeding habits are altering, with personal wealth having a direct impact on whether mothers choose to feed their babies formula or breast milk. Overall breastfeeding duration declines gradually the wealthier the family. However, women in the fourth and fifth quintile have much reduced levels of exclusive breastfeeding; again this is likely to be related to an early return to employment.

Peru, Breastfeeding Duration by Wealth Quintile, 2004-2006 & 2007-2008

	Months					
	Total Breastfeeding		**Exclusive Breastfeeding**		**Predominant Breastfeeding***	
	2004-2006	**2007-2008**	**2004-2006**	**2007-2008**	**2004-2006**	**2007-2008**
Lowest Quintile	20.9	21.7	4.8	5.1	5.5	5.2
Second Quintile	22.0	22.2	4.0	4.8	4.9	5.1
Middle Quintile	19.4	21.4	3.2	4.7	4.0	4.9
Fourth Quintile	19.2	19.5	1.6	3.8	3.4	4.5
Top Quintile	14.5	16.2	2.8	1.6	4.0	2.3

Source: ENDES Demographic & Health Surveys.
Note: * Exclusive breastfeeding and breastfeeding + Juice/water.

Philippines

- President Gloria Macapagal Arroyo's pro-breastfeeding policies have helped to stem the decline in breastfeeding. The number of children never to have been breastfed thereby fell from 13.2% in 2003 to 8% in 2008. Moreover, exclusive breastfeeding duration jumped from 24 days to almost 90 days.

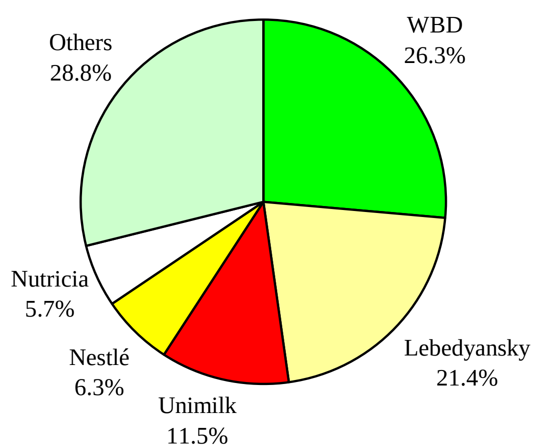
Portugal

- Nestlé has launched a range of toddler cereals under the Cerelac + Crescidos name. The three variants are cornflakes with honey (12 months+), cereals with chocolate chips and 8 cereals with cocoa, both for babies aged 15 months+. The products are fortified with Bifidus BL and nutrients to enhance the immune system (zinc, iron, vitamins A & C).

Russia

- Wimm-Bill-Dann is continuing to make headway in the Russian baby food market, capturing a 26.3% share in January-February 2010, compared with 25.9% in November-December 2009.

Russia: Leading Manufacturers, Volume, 2010 (1)
%



Source: MEMRB
Note: (1) January-February 2010

- Russia has banned a number of Nestlé's poultry based dishes, as they do not comply with its new legislation restricting the use of chlorine in poultry processing for use in baby food. The products banned include four products under the Gerber brand, and also products from Nestlé's Finnish plants.

- Unimilk has extended its range of meat meals in cans under the Tyoma brand. The three new variants are rabbit, lamb and pork, suitable for babies from six months of age. The purées are manufactured by Tikhoretsky.

- Unimilk has launched a baby biscuit variant of its Tyoma drinking yoghurt with lactobacillus. It has also added two new flavours to its standard drinking yoghurt for babies: peach and apricot & banana. All these drinking yoghurts are targeted at babies aged 8 months+ and are packaged in aseptic cartons.

Singapore

- The number of babies born in Singapore dropped in 2009 for the first time since 2004. In 2009, 39,570 babies were born, 0.6% fewer than in 2008. The downward trend continued in the early part of 2010, with just 9,270 babies born in the first quarter, representing a drop of 1.4% over the first quarter of 2009.

Slovakia

- Imports rose strongly in 2005 but were then relatively stable at 9,000-10,000 tonnes per year, up to 2008. In 2009 imports fell by 19.3% to just over 8,100 tonnes. Meat-based meals account for the majority of imports but were responsible for much of the fall in 2009, and so accounted for only 44.6% of imports that year, compared with the peak level of 61% in 2005. Imports of cereals and milks are fairly high (32.6% of volume in 2009) but were also down in 2009. The higher unit prices of cereals and milks, however, mean that in terms of value, cereals/milks imports are almost double those of meat-based meals.

Slovakia, Imports of Baby Food by Sector, Volume, 2004-2009

	Tonnes					
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Special Milks	15.6	6.2	2.3	8.3	8.4	3.3
Cereals & Milks	1,282.2	2,547.8	2,725.7	2,359.4	2,818.7	2,646.4
Vegetable-based Meals	21.0	78.6	72.1	122.7	213.0	265.0
Meat-based Meals	2,728.9	5,561.0	5,870.3	5,395.2	5,217.6	3,618.3
Sweet Meals	458.2	771.8	959.8	951.9	1,026.8	673.8
Soup	65.6	144.1	306.6	505.3	771.4	904.9
TOTAL	**4,571.5**	**1,109.5**	**9,936.8**	**6,342.8**	**10,055.9**	**8,111.7**

Source: ERC based on Eurostat.

Slovakia, Imports of Baby Food by Sector, Value, 2004-2009

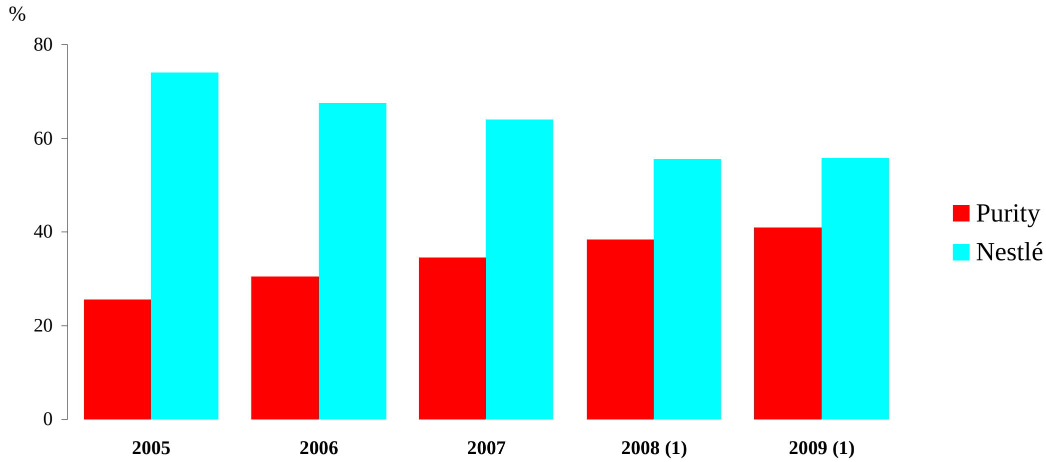
	€ 000					
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Special Milks	12.4	0.9	5.1	4.0	38.5	16.8
Cereals & Milks	3,719.5	7,603.9	8,341.2	7,321.1	11,111.1	11,339.0
Vegetable-based Meals	41.2	124.9	115.2	161.4	506.2	607.5
Meat-based Meals	3,706.4	8,077.9	7,812.5	7,400.7	8,154.3	6,142.6
Sweet Meals	475.6	837.6	1,124.0	1,450.8	1,549.2	1,271.4
Soup	125.5	528.2	792.5	1,614.0	2,348.9	2,362.6
TOTAL	**8,080.6**	**17,173.4**	**18,190.5**	**17,952.0**	**23,708.2**	**21,739.9**

Source: ERC based on Eurostat.

South Africa

- Despite difficult operating conditions, Tiger Brands is continuing to make headway in the cereals sector. Previously almost entirely the preserve of Nestlé (which accounted for 94% of sales in 2002), this sector is now wide open, with the Purity brand from Tiger Brands holding 41% in the year to February 2010, and Nestlé's share now estimated to be down to about 55%.

South Africa: Baby Cereals, Leading Manufacturers' Shares 2005-2009



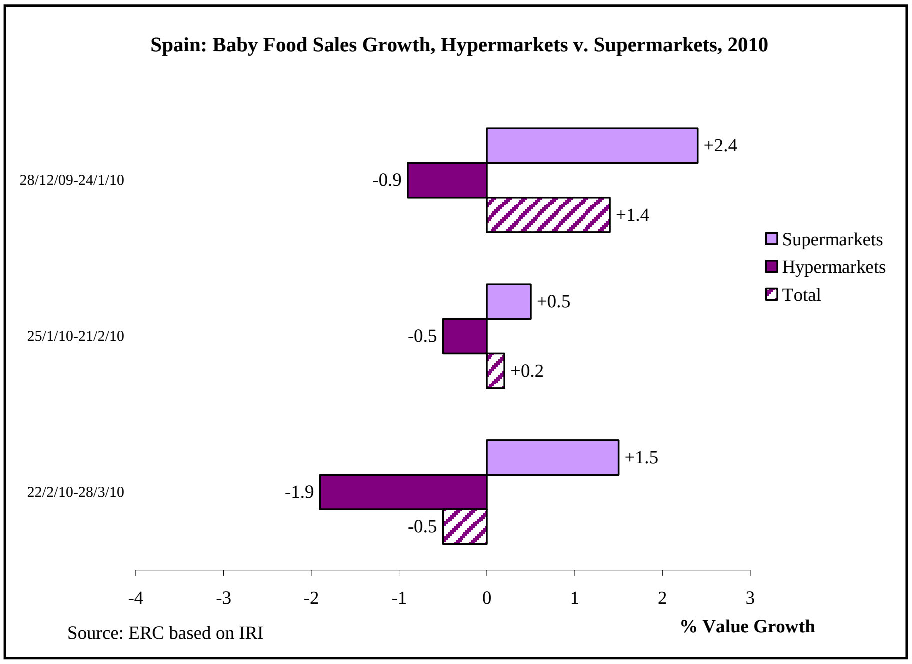
Source: ERC estimates based on Nielsen, Tiger Brands
Note: (1) Year to February of following year.

- Tiger Brands has maintained its virtual monopoly of the meals market in South Africa, increasing its share from 98.2% to 98.4% in the year to February 2010.

- Purity has extended its Tastes of Africa range by adding third stage products for babies aged 8 months+. Previously the range comprised only second stage products targeted at babies from 7 months. Six new recipes are being launched: Vegetables, Beef & Pap; Butternut, Pap & Lamb Stew with Carrots; Butternut, Chicken & Pap; Vegetables, Pap & Lamb Stew; Granadilla, Pineapple & Pap; and Stewed Fruit & Pap Dessert. The jars cost R8-9 each.

Spain

- The baby food market is slowing: in January 2010 sales in hypermarkets and supermarkets were up 1.4%, but growth fell to 0.2% in February and in March sales dropped by 0.5%. In the year to March 2010, overall value sales were up by just 0.4% although volume sales rose by 1.9%, as prices fell by 1.5%. Supermarkets have succeeded in maintaining growth in recent months, while hypermarkets have been losing sales.



- Danone relaunches Mi Primer Danone dairy desserts, made with follow-on milk. The improved recipe contains 30% less sugar, and 40% less fat and protein than the existing products, and also contains added calcium, iron, zinc and essential fatty acids. Suitable for babies aged 6 months-2 years, Mi Primer Danone is available in three variants - plain, three fruits (apple, pear & banana) and fromage frais with fruit, all packaged in plastic pots.

UK

- Heinz has withdrawn its Nurture infant formula brand in the UK. The company held only about 2% of the UK's baby milks market, which is largely a duopoly between Wyeth (SMA) and Danone (Aptamil, Cow & Gate). Heinz will focus on its non-milks activity, where it is a much more prominent player.

- Despite a general decline in sales of organic products, organic baby food achieved 20.8% sales growth in 2009. Ella's Kitchen was one of the beneficiaries of this trend, reporting a 174% increase in sales in 2009. Moreover, the trend has continued into 2010, with Ella's Kitchen announcing a 94% rise in the first quarter compared to the first three months of the previous year.

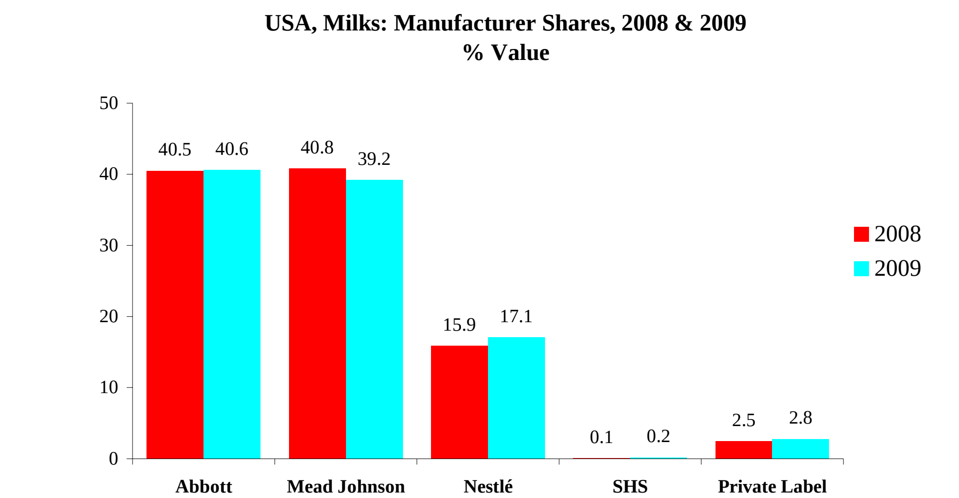
- Heinz has extended its range of baby drinks with Mixed Berries & Apples with Spring Water, priced at £1.65. In addition it has introduced Sunday Chicken Dinner in its savoury dried meals/cereals range.

- Hipp has begun advertising its organic follow-on milk on television. This is the first time that Hipp has used TV advertising for any of its products in the UK.

- Ella's Kitchen has recalled a batch of Stage 3 Totally Cool Caribbean Chicken with Mangoes because it may contain pieces of hardened vegetables which could represent a choking hazard.

USA

- In the 52 weeks ending 24th January 2010, sales of powdered baby milk through food, drug and mass channels (excluding Walmart) fell by 4.4% to US$ 2,360.4 million. Volume sales were down by a similar amount (-4.5%) to 149.7 million units. Abbott has moved into the leading position, with its sales declining more or less in line with the market, while Mead Johnson has seen further erosion of its share, it sales falling at almost twice the rate of the market as a whole. Other suppliers, including Nestlé and private labels, have been making headway at the expense of the big two, but these nonetheless account for a combined share of nearly 80% of value and 77% of volume sales.



Source: IRI
Note: Year to 24th January of following year; sales through food, drug & mass channels only, excluding Walmart.

- In the first quarter of 2010 infant formula sales fell by 11% compared with the first quarter of the previous year, according to Nielsen. This is believed to be largely attributable to the change in the WIC programme.

- Although Abbott now leads the powdered milks sector in overall terms, Enfamil Lipil remains the leading single brand, with a 19.8% share, nearly one percentage point clear of Mead Johnson's Similac Advance. Nestlé Good Start Supreme ranks third on 13.5%. On the whole, standard formulae are losing share to more specialised formulae with specific claims.

USA, Leading Brands, 2008 & 2009

	% Value	
	2008	**2009**
Enfamil Lipil (Mead Johnson)	23.4	19.8
Similac Advance (Abbott)	23.2	18.9
Nestlé Good Start Supreme (Nestlé)	12.9	13.5
Enfamil Gentlease Lipil (Mead Johnson)	5.4	6.3
Similac Sensitive (Abbott)	4.8	6.2
Similac Isomil Advance (Abbott)	5.3	4.9
Similac Isomil Advance Early Shield (Abbott)	0.8	3.7
Similac Alimentum Advance (Abbott)	2.8	2.9
Enfamil Nutramigen (Mead Johnson)	3.1	2.8
Others	18.3	21.0
TOTAL	**100.0**	**100.0**

Source: IRI.
Note: Year to 24th January of following year; sales through food, drug and mass channels only, excluding Walmart.

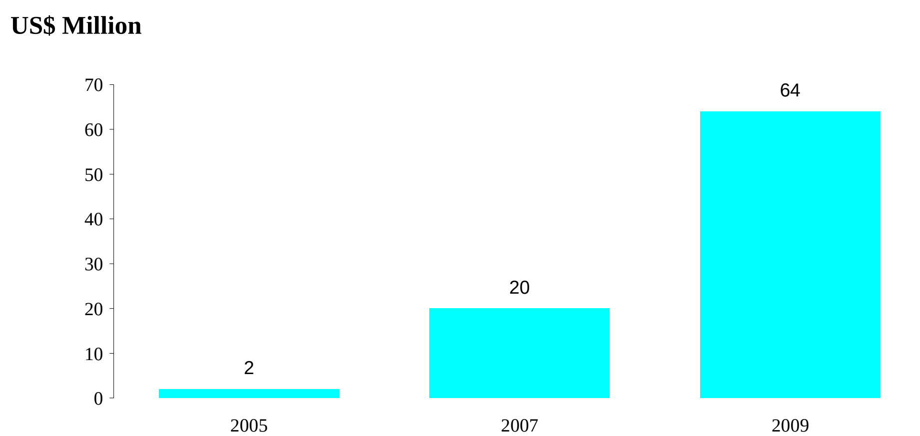
- Sales of baby food & snacks have held up despite the recession, with value sales of US$ 857.2 million (through food, drug & mass channels excluding Walmart) in the year to January 24th 2010, just 0.1% down on the previous year, while volumes are unchanged at 778.3 million units.

  Nestlé continues to dominate with the Gerber brand, with 79.8%. Hero's Beech Nut trails in second place with 10.4%, followed by the Hain Celestial Group on 5.9%. Private label performed well in the difficult economic environment, with sales up by 56.3% to give it a 2.2% share, up from 1.4% in the previous 12 months.

- The baby juice sector was hit hard by the recession, with value sales down by 9% to US$ 74.9 million and volume sales slumping by 20.8% to just 42.9 million units. Nestlé's dominance - via Gerber - in this sector is almost complete, with a 94.1% share in the 12 months to January 24th 2010 (through food, drug & mass channels, excluding Wal-Mart). The remainder of the market is largely contested by Hero with the Beech-Nut brand (2.8%), the Hain Celestial Group's Earth's Best (1.2%), and First Juice (1.1%). Private label is minor (0.5%) and its share slip this year. It is likely that less affluent consumers simply stopped buying baby specific juices, rather than downtrading to own-label.

- USDA has announced that it plans to ban the use of synthetic nutrients in organic foods. This will affect the organic formulae that are fortified with Martek's life's DHA and life's ARA. The organic formula market is valued at US$ 64 million in 2009, up from US$ 20 million in 2007, but nonetheless represents less than 3% of total sales of milks.

USA: Sales of Organic Formulae, 2005-2009



Source: ERC based on AC Nielsen and Nurtrition Business Journal.

- Mead Johnson has announced the withdrawal of the chocolate variety of its Enfagrow Premium brand, aimed at older babies and toddlers. The chocolate-flavoured version was introduced in February 2010. All the Enfagrow Premium variants are fortified with Omega-3 DHA and prebiotics, and also have higher levels of vitamins A, B1, B6, C and E than whole cow's milk. They are also nutritionally superior to other typical toddler drinks such as fruit juices and other flavoured milks. This notwithstanding, the company reports "some misunderstanding and mischaracterization regarding the intended consumer for chocolate Enfagrow Premium and the proper role it can play in a child's balanced diet", leading to its withdrawal. The product had faced criticism because it contained 19g of sugar in a 7oz serving. Enfagrow Premium will continue to be available in three unflavoured variants - Next Step, Gentlease Next Step and Soy Next Step - and also in a vanilla variant.

- The Natural Resources Defence Council has filed a lawsuit against the FDA for failure to act on the NRDC's October 2008 petition to ban the use of bisphenol A in food packaging and other products likely to come in contact with food.

COMPANY NEWS

Abbott

- In the first three months of 2010, Abbott's net sales rose strongly (+14.6%) to reach US$ 7,698 million. Sales of nutritionals rose by 11.8% to US$ 1,320.

  Despite a falling market as a result of lower birth rates and the financial crisis, Abbott was able to increase its US paediatric nutritionals sales by 4.7% to US$ 309 million, thanks to a gain in market share. Its international paediatric nutritionals sales rose strongly on the back of a good performance by developing markets.

Abbott Laboratories: Financial Highlights, First Quarter, 2009 & 2010

	Sales US$ Million		
	First Quarter 2009	**First Quarter 2010**	**% Change**
TOTAL	**6,718**	**7,698**	**+ 14.6**
Nutritionals	1,181	1,320	+ 11.8
- Paediatric Nutritionals	631	700	+ 10.9
- US	*295*	*309*	*+ 4.7*
- International	*336*	*391*	*+ 16.4*
Nutritionals as % of total	17.6	17.1	
Paediatric Nutritionals as % of total	9.4	9.1	

Source: ERC based on Abbott SEC filing.

Almarai

- Mead Johnson and Saudi-based Almarai Co, the Gulf's largest dairy company, are establishing a 50:50 joint venture for the production of baby food. Almarai has a presence across Gulf Cooperation Council countries. A plant is being constructed by Almarai outside Riyadh and will be leased by the joint venture; it is expected to come on stream in 2011, with Mead Johnson providing product knowledge and Almarai contributing local knowledge, dairy supply and distribution networks. Products will be jointly marketed under the Enfa and Almarai brands. The joint venture is expected to reach profitability by 2012.

American Dairy Inc

- First quarter sales fell by 28% to US$ 81.4 million. Much of the decline was attributable to the 40% drop in sales of branded infant formulae, which account for around 80% of turnover (US$ 64.8 million). Sales in the first quarter of 2009 had been sharply boosted by the effects of the melamine scandal, and this higher level has not been maintained as the market has settled. Net income slumped to US$ 5.5 million in the first quarter of this year, from US$ 27.8 million in the first three months of 2009.

Arla Foods

- Arla Food Ingredients has begun the commercial production of osteopontin, a milk protein found in breast milk. Human milk contains 140mg of osteopontin per litre, whereas cow's milk contains just 20mg/litre. The commercially produced osteopontin can be added to infant formula to make it more closely resemble human breast milk.

Ausnutria

- Ausnutria achieved a 54% increase in its 2009 sales, to Yuan 623.7 million. Profit more than doubled from Yuan 70.5 million to Yuan 182 million.

- Ausnutria Dairy Company Limited has signed a binding letter of intent with France Nutribio SAS for the possible establishment of a 50:50 joint venture, to be known as Ausnutria Nactalia. The joint venture company is to be located in Paris. Nutribio is to develop at least 3-4 new products every six months to be marketed by Ausnutria in China (including Hong Kong and Macau).

  In addition, the two parties agreed that within six months of Nutribio becoming a wholly-owned subsidiary of Sodiaal, Ausnutria Dairy (or its group members) will purchase 10% of the equity of Nutribio. Nutribio is currently a joint venture between Sodiaal and Entremont. Sodiaal is in the process of acquiring Entremont.

Babylicious

- When Babylicious fell into administration in September 2009, it owed its creditors £716,706. Following a management buyout the company has now been re-formed as the Kids Food Company Ltd, marketing the Babylicious and Kiddylicious brands.

Capsa

- Capsa (Corporación Alimentaria Peñasanta) has entered the baby milks market for the first time with the launch of a growing-up milk via an alliance with Hero.

Danone

- Danone reports an 8.3% rise in its first quarter sales, to €3.98 billion. Baby Nutrition sales were up by 10.2% to €797 million, representing 20% of overall sales. On a like-for-like basis, the growth of the Baby Nutrition division was 8.5%, comprised entirely of volume growth (+8.9%), with prices down (-0.4%).

Danone: Financial Highlights, First Quarter, 2009 & 2010

	€ Million			
	First Quarter 2009	**First Quarter 2010**	**% Change**	**% Change Like-for-Like**
Sales	3,674	3,978	+ 8.3	+ 7.0
- Baby Nutrition	723	797	+ 10.2	+ 8.5
Baby Nutrition as % of total	**19.7**	**20.0**		

Source: ERC based on Danone.

- In geographical terms, the company's baby food activities in the first quarter performed particularly well in the UK, Poland and Asia (especially China and Indonesia). The Russian market, however, continued to underperform, although the situation was somewhat better than in fourth quarter of 2009. The company was able to improve its market share in most countries.

- Sales of Danone's baby milks achieved double digit growth, whereas sales of its weaning foods stagnated. The company is focusing its energies on its milks activities. In Asia the milks sector performed strongly, but even in Western Europe high single digit sales increases are reported.

- Danone is merging its Russian Fresh Dairy Products business with those of Unimilk. The deal will also cover other CIS countries - Ukraine, Kazakhstan and Belarus. The merged Danone-Unimilk operation will be 57.5% owned by Danone, with Unimilk's current shareholders controlling 42.5%. Danone will have the option to dispose of all or part of its shares in the entity, and to hold 100% of the shares by 2022. Although the merger involves Danone's fresh dairy activities, it covers all of Unimilk's activities, including its baby foods business. Unimilk is active via the Tyoma brand, which is used for dairy products for babies (curd cheese, sour milk products) as well as powdered infant formulae and a full range of other baby food (cereals, meals, drinks). The deal is expected to be completed by the end of the year. The new entity is expected to achieve a turnover of €1.5 billion.

- Following the announcement of the merger of Danone's Fresh Dairy Products business with Unimilk, it is though that Danone is reviewing its 18% stake in Wimm-Bill-Dann. It is likely that this would, in any case, be a pre-condition for regulatory approval of the Danone-Unimilk merger.

- Danone has acquired a 100% stake in Medical Nutrition USA at a price of US$ 62 million. The acquisition will strengthen Danone's clinical nutrition division. Medical Nutrition USA achieved sales of US$ 16 million in 2009.

- Danone has launched an international recall of a number of products, which contains peas destined for adult consumption, following a mix-up at one of Danone's suppliers. The peas contain a higher concentration of a pesticide, fluazifop-P, then is permitted in baby food according to EU regulations. The brands affected are Idées de Maman (Purée de petits pois, Haricots verts Dinde, Panier de Légumes Jambon, Légumes du potager Boeuf); Petit Pot (Légumes verts Poulet, Jardinière de légumes, Légumes vert Riz Saumon, Jardinière legumes Poulet); and Blédichef (Etuvée Haricots verts Poulet, Sauté de petits pois Veau). Affected products were distributed in Belgium, Portugal, Spain, France, French Guiana, French Polynesia, Guadeloupe, Martinique, Lebanon, Congo-Brazzaville, Côte d'Ivoire, Djibouti, Gabon, Liberia, Mali, Mauritius, Mayotte, New Caledonia and Niger. Not all of the products were sold in every country.

FrieslandCampina

- As part of its Route 2020 growth strategy, FrieslandCampina anticipates expansion of production of ingredients for baby food to be one of the main drivers of growth.

Hain Celestial

- The Hain Celestial Group Inc saw a 5.3% drop in net sales (continuing businesses only) to US$ 222.1 million. However, sales of the Earth's Best brand of baby food are reported to have shown single digit growth.

Heinz

- Heinz is reported to be on the look-out for a takeover target in the Chinese infant formula market, to boost its recently announced commencement of production of infant formula in the country. This is part of Heinz's strategy of building up its baby food business, which currently accounts for only 11% of sales, but is its most profitable division.

- In its financial year ending 28th April 2010, Heinz achieved a 4.8% increase in sales to US$ 10.5 billion. Net income fell by 6.3% to US$ 864.9 million. The Infant/Nutrition division grew in line with the company as a whole, accounting for an unchanged 11% of total sales.

Heinz: Full Year Results, 2009 & 2010

	US$ Million		
	2009[1]	**2010[2]**	**% Change**
Sales	10,011.3	10,495.0	+ 4.8
Operating Income	1,502.4	1,559.2	+ 3.8
Net Income	923.1	864.9	- 6.3
Infant Food Sales	1,105.3	1,158.0	+ 4.8
Infant Food as % of Total Sales	11.0	11.0	

Source: ERC based on HJ Heinz.
Note: (1) Fiscal year ending April 29th 2009.
(2) Fiscal year ending April 28th 2010.

- In the fourth quarter of fiscal 2010 (year to 28th April) the company's wet baby food sales grew in both Latin America and Italy.

Hero

- Hero has sold its bakery and decoration business to the Oetker group, increasing the company's focus on its core activities of baby food, fruit products and nutrition.

- In the US the new 650,000 square foot Beech-Nut plant in the town of Florida, Montgomery County (New York State) has been officially opened. The plant will have 500 employees, of which 135 are the result of the relocation of Beech-Nut's headquarters from St Louis. It will also be the headquarters of Hero's North America operations. The new plant replaces two existing plants at Canahorie and Fort Plain, both in New York State.

- Following its acquisition by Hero, the Blédina range is being relaunched as Blédina-Friso in Belgium. This probably represents the first step in ultimately rebranding the products under the Friso name, as Hero has the right to use the Blédina brand for only five years from the date of acquisition (June 2008).

- In Spain Hero has established an alliance with Capsa for the introduction of a growing-up milk by Capsa.

Hochdorf

- Hochdorf is predicting a sharp increase in sales by its baby food division (Hochdorf Nutricare AG). In 2009 the sale of its jarred meals activity caused a 17.4% drop in volume sales, to 5,697 tonnes. In 2010 it is projecting sales of 8,500 tonnes, with growth coming both from its existing 21 markets and from entry into nine new markets (Vietnam, Argentina, the Dominican Republic, Syria, Jordan, Brazil, Costa Rica, Bulgaria and Pakistan). By 2012 it hopes to achieve a volume of 15,000 tonnes.

Humana

- The parent company, Humana Milchindustrie GmbH is to merge with Nordmilch AG with effect from January 1st 2011. It is not clear at this stage what impact this will have on the baby food operation.

Martek

- Martek does not expect to be unduly affected by USDA's planned ban on the use of synthetically manufactured DHA and ARA in organic infant formulae: although its life's DHA and life's ARA brands are found in 95% of US milks brands, the bulk of these are conventional formulae, with organic formulae only a niche market.

- Martek and Mead Johnson have extended their sole-source supply agreement for DHA and ARA for use in infant formulae by four years to 2015. Mead Johnson also has the option of extending the agreement for a further four years. The new agreement also provides gradual price reductions to Mead Johnson, with effect from 2010. Martek plans to offset the price reductions by manufacturing cost savings, product innovation and expansion of its non-infant formula activities.

Materna (France)

- Materna is investing €11 million in a new plant at Montigny-Lengrain (Aisne). This will take over the production of all of Materna's Babynov meals in jars, which are currently produced at three different sites, at Meux (Oise), Courmelles (Aisne) and Nogent-le-Rotrou (Eure et Loir).

Mead Johnson

- Mead Johnson and Saudi-based Almarai Co, the Gulf's largest dairy company, are establishing a 50:50 joint venture for the production of baby food. Almarai has a presence across Gulf Cooperation Council countries. A plant is being constructed by Almarai outside Riyadh and will be leased by the joint venture. It is expected to come on stream in 2011, with Mead Johnson providing product knowledge and Almarai contributing local market knowledge, dairy supply and distribution networks. Products will be jointly marketed under the Enfa and Almarai brands. The joint venture is expected to reach profitability by 2012.

  The baby food market in the GCC region has significant potential for development due to its relatively large size, above average incomes and high birth rates.

- In the first quarter of 2010, Mead Johnson's net sales rose by 10.2% to US$ 763.5 million. Net earnings increased by 17.8%, to US$ 125.6 million, giving a net profit margin of 16.5%, up from 14.9% in the first quarter of 2009.

  The Asia/Latin America segment increased its share of total sales again, to reach 59.7% of the total. The 17% increase in sales in this geographical segment was partially due to inherent market growth, but was also aided by the company's investments in marketing, product innovation and distribution. China is the company's second largest market other than the USA, and was the strongest performer in the first quarter of 2010, with growth attributable to expansion of the overall market and to Mead Johnson's greater geographical penetration. Hong Kong, Malaysia and Thailand also performed well. On the other hand, sales in the Philippines declined as a result of a decline in the market and the ending of a contract to sell pharmaceuticals for Bristol-Myers Squibb. Conversely, the transfer of the company's Brazilian operations from Bristol-Myers Squibb boosted sales there. On the whole, the segment benefited from foreign exchange variations, but the devaluation of the Bolivar in Venezuela led to declines there.

  Sales in the North America/Europe segment rose by just 1.4% to US$ 307.5 million. In the USA a lower birth rate and a fall in market share depressed sales, but these factors were partially offset by the timing of retail inventory changes and lower rebates on the WIC programme.

Mead Johnson: Breakdown of Sales & Earnings by Region, First Quarter, 2009 & 2010			
	Sales US$ Million		
	First Quarter 2009	**First Quarter 2010**	**% Change**
Asia/Latin America	389.8	456.0	+ 17.0
North America/Europe	303.2	307.5	+ 1.4
TOTAL	**693.0**	**763.5**	**+ 10.2**
	%		
Asia/Latin America	56.2	59.7	
North America/Europe	43.8	40.3	
TOTAL	**100.0**	**100.0**	
	Pre-Tax Earnings, US$ Million		
Asia/Latin America	148.7	166.3	+ 11.8
North America/Europe	101.2	97.1	- 4.1
Corporate/Other	(61.1)	(65.5)	+ 7.2
TOTAL	**188.8**	**197.9**	**+ 4.8**
	Profit Margin, %		
Asia/Latin America	38.1	36.5	
North America/Europe	33.4	31.6	
TOTAL	**27.2**	**25.9**	

Source: ERC from Mead Johnson.

Although infant formulae continue to dominate overall sales, at 62.8%, children's nutrition has outperformed infant formulae, with sales up by 21.7%.

Mead Johnson: Breakdown of Sales by Product, First Quarter, 2009 & 2010			
	Sales, US$ Million		
	First Quarter 2009	**First Quarter 2010**	**% Change**
Infant Formulae	450.7	479.4	+ 6.4
Children's Nutrition	219.3	266.8	+ 21.7
Other(1)	23.0	17.3	- 24.8
TOTAL	**693.0**	**763.5**	**+ 10.2**
	%		
Infant Formulae	65.0	62.8	
Children's Nutrition	31.6	34.9	
Other(1)	3.3	2.3	
TOTAL	**100.0**	**100.0**	

Source: ERC based on Mead Johnson.
Note: (1) Fall in other products caused by expiration of a 2009 marketing services agreement under which Mead Johnson sold pharmaceutical products in two Asian markets on behalf of Bristol-Myers Squibb.

- Mead Johnson and Martek have extended their sole-source supply agreement for DHA and ARA for use in infant formulae by four years to 2015. Mead Johnson also has the option of extending the agreement for a further four years. The new agreement also provides gradual price reductions to Mead Johnson, with effect from 2010.

Nestlé

- In the first quarter of 2010, Nestlé has achieved a 4.4% increase in overall sales, to SFr 26,278 million. Sales at Nestlé Nutrition were slow, rising by only 3.8% to SFr 2,512 million. As a result, Nestlé Nutrition is still slightly short of the targeted 10% of group sales.

Nestlé: Financial Highlights, First Quarter, 2009 & 2010			
	SFr Million		
	First Quarter 2009	First Quarter 2010	% Change
Total	25,174	26,278	+ 4.4
- Nestlé	2,420	2,512	+ 3.8
Nestlé Nutrition as % of Total	9.6	9.6	

Source: ERC based on Nestlé.

Within the Nutrition division, infant nutrition achieved high single figure organic growth overall, with double digit organic growth in the USA and many emerging markets. Both infant formula and baby food performed well in the USA and emerging markets. Infant cereals achieved double digit organic growth. Sales advanced in the key European markets of France and Germany, while strong growth was also achieved in Russia and Central Europe.

- Osem's first quarter sales show an 11.1% increase to NIS 940.9 million. The acquisition of 51% of Materna, completed in December 2009, contributed 9.5% to the growth. Osem is 53.8% owned by Nestlé.

- Nestlé is relaunching its Naturnes brand in Germany as a sub-brand of its Alete brand, in the hope of boosting sales and share. Nestlé is aiming for a 10% share of the meals sector for Naturnes by the end of 2010, having failed to achieve this target by the end of 2009, when it had a share of under 5% of the meals sector.

Nutritek

- Ailing Russian company Nutritek is attempting to stave off bankruptcy. The company has been struggling to reschedule its debts for over a year. It decided to postpone its share issue in April 2010, and in June 2010 the company announced that the payment due to creditors on 30th June would not be paid, as the company does not have the financial resources. It is not clear how long the company's creditors will remain patient.

Perrigo Co

- The acquisition of PBM Holdings by Perrigo Co has been completed.

Pfizer Nutrition

- Sales of nutrition products in the first quarter of 2010 stood at US$ 458 million, representing just 2.7% of Pfizer's overall sales. This is the first quarter in which Pfizer Nutrition has made a full contribution to Pfizer's newly enlarged business.

Plum Baby

- Darwin Private Equity has acquired Plum Baby for £10 million, Plum Baby was originally founded in 2006 and in 2007 was able to attract investment from various venture capital trusts - Beringea, Octopus Ventures and Foresight. These will exit the company with the acquisition by Darwin. Plum Baby products are currently available at Boots, Waitrose (including Ocado) Tesco and Sainsbury's. Darwin aims to strengthen Plum's position in Tesco, where the brand is currently weak; Tesco accounts for a third of UK baby food sales and is therefore a key channel.

- Plum is on target to achieve sales of £15 million in 2010.

Rafferty's Garden

- Just two years after its initial launch, the Rafferty's Garden range comprises 40 products available in 2,700 stores, most of which are Coles and Woolworths supermarkets, where the company succeeded in gaining listings within twelve months of its market entry.

  In addition, the Rafferty's Garden range is available in 23 Asian countries via an Asian-based distributor.

Rodobo International

- In the first half of fiscal 2010 (six months to 31st March 2010), Rodobo International, a Chinese company listed on the New York Stock Exchange - has reported a 68% increase in sales to US$ 25.4 million. The increase was driven by higher volume sales and the July 2009 launch of the premium Peer brand, which accounted for sales of US$ 8.7 million (34.3% of the total). Operating income rose 55% to US$ 4.2 million, while net income virtually doubled to US$ 6.1 million from US$ 3.1 million.

Sodiaal

- After protracted negotiations, Sodiaal announced in June that it had reached a preliminary agreement to acquire 100% of Entremont Alliance. The deal is valued at €25 million, of which €10 million will be paid in cash, the remainder as exchangeable bonds. The deal is expected to be concluded in September.

- Ausnutria Dairy Company Limited has signed a binding letter of intent with France Nutribio SAS for the possible establishment of a 50:50 joint venture, to be known as Ausnutria Nactalia. The joint venture company is to be located in Paris. Nutribio is to develop at least 3-4 new products every six months to be marketed by Ausnutria in China (including Hong Kong and Macau).

  In addition, the two parties agreed that within six months of Nutribio becoming a wholly-owned subsidiary of Sodiaal, Ausnutria Dairy (or its group members) will purchase 10% of the equity of Nutribio. Nutribio is currently a joint venture between Sodiaal and Entremont.

Synutra International

- In its full fiscal year to March 2010, Synutra International reports net sales down 6.6% to US$ 291.9 million, down from US$ 312.5 million. Within this, sales of branded powdered formulae fell sharply, by 31.8%, to US$ 194.4 million. The drop in branded formulae sales reflects the ongoing impact of the 2008 melamine scandal, in which Synutra's U-Smart brand was one of the 22 brands contaminated. As a result, Synutra was left with a substantial surplus of milk powder. Over the course of fiscal 2010 (year to end March), Synutra has been selling off the surplus to industrial customers, and as a result, the share of sales accounted for by the sale of surpluses to industrial customers rose from 8.8% in fiscal 2009 to 32.6% in fiscal 2010.

  However, the situation was returning to normal by the final quarter of fiscal 2010, with sales of surpluses to industrial customers accounting for just 14.1% of net sales. In the fourth quarter sales of branded powdered formula rose by 0.9% over the fourth quarter of fiscal 2009, to US$ 69.8 million. The Super series of branded formula accounted for 56.6% of volume sales and 68.9% of value sales of branded powdered infant formulae.

The Kids Food Company

- Following a management buyout of Babylicious, the company has now been re-formed as The Kids Food Company Ltd, marketing the Babylicious and Kiddylicious brands.

Tiger Brands

- In the first half of fiscal 2010 (six months to March 31st 2010), Tiger Brands was able to increase its overall sales by 2% to Rand 10,187.4 million. Sales in the Baby Care division (Purity baby food and Elizabeth Anne baby care products) rose by 5% to Rand 300.6 million. Operating income for the Baby Care division rose by 9.6% to Rand 86.8 million, to give an operating margin of 28.9%.

TreeHouse Foods

- The company reports that it is "de-emphasising" its branded infant foods activity. The North American Grocery division, grew by 2.8% (excluding acquisitions) including infant foods, but by 4.1% if infant foods are excluded.

Unimilk

- Danone is merging its Russian Fresh Dairy Products business with those of Unimilk. The deal will also cover other CIS countries - Ukraine, Kazakhstan and Belarus. The merged Danone-Unimilk operation will be 57.5% owned by Danone, with Unimilk's current shareholders controlling 42.5%. Danone will have the option to dispose of all or part of its shares in the entity, and to hold 100% of the shares by 2022. Although the merger involves Danone's fresh dairy activities, it covers all of Unimilk's activities, including its baby foods business. Unimilk is active via the Tyoma brand, which is used for dairy products for babies (curd cheese, sour milk products) as well as powdered infant formulae and a full range of other baby food (cereals, meals, drinks). The deal is expected to be completed by the end of the year. The new entity is expected to achieve a turnover of €1.5 billion.

Wimm-Bill-Dann

- Following the announcement of the merger of Danone's Fresh Dairy Product business with Unimilk, it is though that Danone is reviewing its 18% stake in Wimm-Bill-Dann. It is likely that this would, in any case, be a pre-condition for regulatory approval of the Danone-Unimilk merger.

- Wimm-Bill-Dann achieved a 19% increase in first quarter sales to US$ 615.3 million. Baby food continues to outperform other divisions, with a 35.3% increase raising sales to US$ 72.4 million and increasing its importance to the group as a whole, although it still remains minor in comparison with the company's dairy business.

Wimm-Bill-Dann: Financial Highlights, First Quarter, 2009 & 2010			
	Sales US$ Million		
	First Quarter 2009	First Quarter 2010	% Change
Dairy	369.2	434.5	+ 17.7
Beverages	94.1	108.4	+ 15.2
Baby Food	53.5	72.4	+ 35.3
TOTAL	**516.8**	**615.3**	**+ 19.1**
Baby Food as % of Total Sales	10.4	11.8	

Source: ERC based on Wimm-Bill-Dann.

Gross margin in the baby food sector slipped slightly, from 43.3% to 47.6%, but it nonetheless remains by far the most profitable of the group's divisions.

- The growth in Wimm-Bill-Dann's sales of baby food contributed to a 0.4 percentage point gain in share of the baby food market between November-December 2009 and January-February 2010, to 26.3% of volume. Sales were boosted by heavy promotional support for its products, greater geographical availability and new product development, including entry into the baby biscuit sector. The company is continuing to increase the share of baby food sales derived from non-dairy products: in the first quarter of 2010, non-dairy baby food represented 41% of the total, up from 32% in the full year of 2009.

- According to its co-owner and board member David Yakobashvili, Wimm-Bill-Dann is looking to make acquisitions abroad in the baby food and dairy sectors.

Demographic & Economic Data, 2009	Live Births	Crude Birth Rate	Population Million	Exchange US$ 1.00 =
Western Europe	**4,405,075**	**10.82**	**407.11**	
Austria	76,000	9.08	8.37	0.72
Belgium	123,200	11.39	10.82	0.72
Denmark	63,773	11.57	5.51	5.64
Finland	60,013	11.22	5.35	0.72
France	815,300	13.05	62.47	0.72
Germany	681,200	8.31	81.93	0.72
Greece	120,000	10.64	11.28	0.72
Ireland	73,638	16.44	4.48	0.72
Italy	576,500	9.60	60.05	0.72
Netherlands	184,400	11.18	16.49	0.72
Norway	60,600	12.65	4.79	6.30
Portugal	97,800	9.18	10.65	0.72
Spain	500,400	10.85	46.10	0.72
Sweden	109,740	11.80	9.30	7.65
Switzerland	77,486	10.05	7.71	1.09
United Kingdom	785,025	12.70	61.81	0.64
Eastern Europe	**2,798,977**	**11.16**	**250.69**	
Czech Republic	115,500	11.07	10.43	19.09
Hungary	96,600	9.68	9.98	202.40
Poland	*406,905*	10.68	38.10	3.12
Russia	1,659,500	11.78	140.90	31.82
Slovakia	55,483	10.25	5.41	0.72*
Ukraine	479,394	10.45	45.88	8.14
South America	**8,059,600**	**17.15**	**470.05**	
Argentina	670,000	16.50	40.60	3.74
Brazil	2,985,000	15.35	194.40	2.01
Chile	232,000	13.70	16.93	569.90
Colombia	664,000	13.56	48.95	2,180
Mexico	2,304,700	20.72	111.23	13.52
Peru	598,000	20.23	29.56	3.05
Venezuela	605,900	21.35	28.38	2.15
Asia & Australasia	**53,474,092**	**16.47**	**3,246.32**	
Australia	300,000	13.59	22.07	1.28
China	16,283,000	12.20	1,334.66	6.84
India	26,004,000	22.30	1,166.10	48.85
Indonesia	*4,517,600*	*18.80*	*240.30*	*10,429*
Japan	1,096,000	8.60	127.40	93.60
Malaysia	*475,272*	*16.80*	*28.29*	*3.53*
New Zealand	63,640	14.80	4.30	1.60
Philippines	*1,635,100*	*17.72*	*92.30*	*47.73*
Singapore	*39,570*	*7.93*	*4.99*	*1.45*
South Korea	*445,000*	*9.12*	*48.80*	*1,279*
Taiwan	191,310	8.27	23.12	33.07
Thailand	*897,100*	*13.40*	*66.95*	*34.57*
Vietnam	*1,532,000*	*17.60*	*87.04*	*18,007*
North America	**4,530,500**	**13.30**	**340.7**	
Canada	*380,500*	*11.29*	*33.70*	*1.14*
USA	4,150,000	13.52	307.00	1.00
Middle East, N Africa & RSA	**5,872,365**	**20.97**	**280.01**	
Egypt	1,688,500	21.08	80.10	5.60
Israel	155,630	20.75	7.50	3.93
Morocco	601,800	19.10	31.51	8.15
Saudi Arabia	683,000	26.68	25.60	3.75
South Africa	1,130,000	23.14	48.84	8.44
Tunisia	180,000	17.22	10.45	1.36
Turkey	1,433,435	18.86	76.02	1.56
TOTAL	**79,140,609**	**15.84**	**4,994.88**	

Source: ERC baby food research programme from various sources.
Note: Data for China excludes Hong Kong.
* Slovakia adopted the Euro in 1/1/2009.

US Dollar Exchange Rates, 2003-2009							
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Western Europe							
Austria	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Belgium	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Denmark	6.588	5.991	5.997	5.947	5.444	5.098	5.641
Finland	0.88	0.81	0.80	0.79	0.73	0.68	0.72
France	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Germany	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Greece	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Ireland	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Italy	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Netherlands	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Norway	7.08	6.74	6.44	6.41	5.86	5.64	6.30
Portugal	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Spain	0.88	0.81	0.80	0.79	0.73	0.68	0.72
Sweden	8.080	7.347	7.473	7.373	6.755	6.596	7.652
Switzerland	1.35	1.24	1.25	1.25	1.20	1.08	1.09
United Kingdom	0.613	0.546	0.550	0.543	0.500	0.541	0.641
Eastern Europe							
Czech Republic	28.21	25.70	23.95	22.59	20.33	17.10	19.09
Hungary	224.3	202.6	199.6	210.4	184.0	172.7	202.4
Poland	3.89	3.65	3.23	3.10	2.77	2.41	3.12
Russia	30.70	28.81	28.29	27.19	25.58	24.88	31.82
Slovakia	36.73	32.25	31.04	29.66	24.74	21.42	0.72*
Ukraine	5.34	5.32	5.10	5.04	5.18	5.37	8.14
South America							
Argentina	2.90	2.94	2.92	3.07	3.12	3.18	3.74
Brazil	3.08	2.93	2.43	2.18	1.95	1.84	2.01
Chile	691.4	609.5	559.7	530.3	522.4	523.9	569.9
Colombia	2,878	2,629	2,322	2,360	2,120	1,991	2,180
Mexico	10.80	11.29	10.89	10.90	10.94	11.17	13.52
Peru	3.48	3.41	3.29	3.27	3.20	2.97	3.05
Venezuela	1.607	1.883	2.108	2.147	2.149	2.152	2.152
Asia & Australasia							
Australia	1.540	1.359	1.312	1.328	1.195	1.198	1.281
China	8.28	8.28	8.19	7.97	7.61	6.95	6.84
India	46.60	45.30	44.1	45.30	41.30	43.50	48.85
Indonesia	8,465	9,290	9,711	9,171	9,139	9,685	10,429
Japan	115.9	108.2	110.2	116.3	117.8	103.4	93.6
Malaysia	3.80	3.80	3.79	3.67	3.45	3.33	3.53
New Zealand	1.72	1.51	1.42	1.54	1.36	1.42	1.6
Philippines	54.20	56.00	55.06	51.28	46.21	44.58	47.73
Singapore	1.74	1.69	1.66	1.59	1.51	1.42	1.45
South Korea	1,192	1,145	1,024	955	935	1,103	1,279
Taiwan	34.42	33.43	32.18	32.53	32.84	31.53	33.07
Thailand	41.50	40.20	40.26	37.92	32.53	33.28	34.57
Vietnam	15,510	15,740	15,859	15,994	16,421	16,708	18,007
North America							
Canada	1.40	1.30	1.21	1.13	1.07	1.07	1.14
USA	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Middle East, North Africa & RSA							
Egypt	5.84	6.20	5.99	5.74	5.72	5.49	5.60
Israel	4.55	4.47	4.49	4.46	4.11	3.59	3.93
Morocco	9.57	8.87	8.86	8.80	8.26	7.80	8.15
Saudi Arabia	3.75	3.75	3.75	3.75	3.75	3.76	3.75
South Africa	6.70	6.44	6.36	6.77	7.07	8.28	8.44
Tunisia	1.290	1.283	1.301	1.330	1.294	1.249	1.356
Turkey	1.50	1.43	1.35	1.44	1.31	1.31	1.56

Source: Oanda Corporation.
Note: National currency units: US$.
Yearly averages.
* Slovakia adopted the Euro in 1/1/2009.