NEWS from Canadean

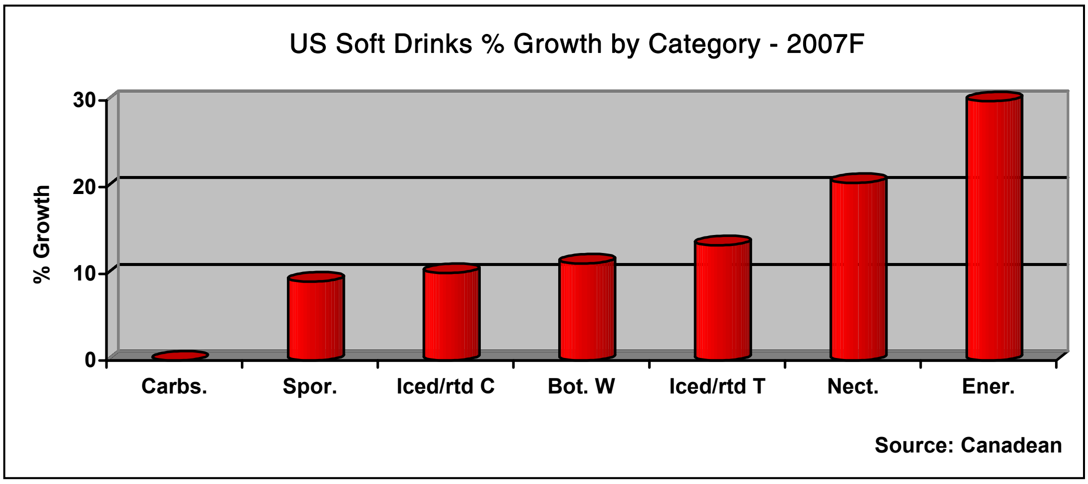
SOFT DRINKS IN THE US:

FLAT CARBONATES MEAN A RETHINK FOR THE MAJORS

Despite research indicating that 'indulgent' foods such as desserts, ice cream and fresh dairy are among the fastest growing in the US, carbonated soft drinks continue to struggle.

According to a brand new report from leading beverage industry analysts Canadean, consumption of carbonates is on track to decline for the fourth consecutive year in 2007. The report is unique in covering the total 'cold beverage' spectrum, from packaged water to iced teas and coffee – 12 categories in all – while also including detailed profiles of the 35 leading players in today's wider beverage market. This total share-of-throat approach focuses on how key beverage categories interact with each other as they compete for consumers' share-of-wallet.

In particular, the challenges evident within carbonates have resulted in a significant change in direction for the two leading players who appear to have accepted that the greatest potential for future growth lies firmly outside the category.



With further innovation in carbonates and bottled water unlikely to generate the required growth in volume and margins, Coca-Cola and PepsiCo have both adopted new strategies. As a result, the avenues to have been explored include opportunities to invest in the most dynamic independent producers, an overhaul of iced/ready-to-drink (rtd) tea portfolios, a range of new health focused drinks and the testing of new routes to market.

This new approach has though brought difficulties. Coca-Cola upset some bottlers by independently testing a new Powerade warehouse delivery scheme for WalMart whilst Red Bull left distributors more than a little disgruntled when margins were reduced on the new 35.5cl/12oz can.

Bottled water continues to grow strongly, driven by the increasing popularity of multi-packs through discount stores. However, as consumer prices fall, profitability is declining making the category a far less attractive proposition than it has been previously. The rapidly emerging premium ‘near water’ still drinks represent another possible threat.

New products leave iced/rtd tea steaming…

Of the other major categories, iced/rtd tea and sports drinks have both advanced strongly. iced/rtd tea has been rejuvenated by new product development, led by Arizona. Sales of the Company’s 1 gallon HDPE bottle have increased particularly sharply. The performance of the new premium green, low-calorie and unflavoured/unsweetened tea segments has also been impressive. Boosted by White and Red/Rooibos teas, consumption of iced/rtd tea should increase by a further 13% this year.

Extensions giving an edge in Sports…

The strong growth in the sports drinks market has been largely driven by PepsiCo’s Gatorade brand. Line, flavour and pack extensions have enabled niches to be successfully targeted without affecting core demand. In response, Powerade has been promoted aggressively and the resulting price competition has added further momentum to the market. Meanwhile, the fortunes of two new introductions, namely a ready-to-drink version of Accelerade by Cadbury Schweppes and the much hyped new offering for the PepsiCo bottlers who do not handle Gatorade, will be monitored with interest.

On a smaller scale, notable growth was generated within nectars and energy drinks. Although nectars remains highly fragmented and lacks real identity, the performance of imported and chilled nectars has been solid. Furthermore, growth of at least 20% should be achievable this year as chilled low-calorie nectars provide affordable alternatives to juice. Ocean Spray is still the market leader but Coca-Cola and PepsiCo are both making inroads with their Minute Maid (Light, Heartwise and Active) and Tropicana (Essentials) brands.