Nestlé

2009 Spring Press Conference

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Transcript

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Paul Bulcke: Good morning ladies and gentlemen and welcome to our first press conference of 2009. I'd like to thank you for your interest and your presence today and I also extend a warm welcome to all of your colleagues and also investors who are following this press conference through the webcast.

You will have seen the figures that went out this morning and you can find full details in the press release in your folder. I will comment on these results in a moment with my colleagues from the Executive Board of Nestlé. But first let me briefly introduce them to you.

To my right, Jim Singh, Chief Financial Officer of the Group, Jim also supervises the Global Business Services and Legal and Intellectual Property Departments. Frits Van Dijk, who is running Zone AOA sits on Jim's right. On his right is Luis Cantarell head of Zone Americas and to his right Laurent Freixe Head of Zone Europe.

Next to Laurent you have John Harris in charge of Nestlé Waters. And next to him is Richard Laube who leads the Global Nestlé Nutrition business. To my left Robin Tickle, Head of Corporate Media Relations. Next to him sits Francisco Castañer, who supervises our pharmaceutical activities, liases with L’Oréal and is in charge of Human Resources. On his left Werner Bauer, our Chief Technology Officer in charge of all our Research and Development as well as Regulatory Affairs.

Next to him you find José Lopez, who is running the Group's Operations Division, in charge of our entire supply chain including also our factories as well as GLOBE. On José's left side is Marc Caira, who runs

Nestlé Professional, our globally managed business dealing with the Out of Home market.

Now the Board of Directors has appointed Mrs Petraea Heynike to the Executive Board of Nestlé as Executive Vice President with the responsibility for our strategy business units, Marketing and Sales and Nespresso. These units were managed by Werner Bauer at interim since November last year. Petraea is with us and Petraea if you want to stand up so everybody can see you.

Paul Bulcke: Petraea has had a typical Nestlé career, beginning at Nestlé UK in 1972. After international postings which included Malaysia, South Africa and the United States she joined Nestlé Canada has head of the Ice Cream business before being appointed Market Head of Nestlé Canada. Since 2006 Petraea has headed our Chocolate, Confectionary and Biscuit SBU here at the centre.

Petraea's international experience combined with her deep product, market and communication expertise make her ideally suited to help define the strategic direction of Nestlé's different product categories.

Well 2008 was a historic year that dramatically changed the business environment. The full implications of the financial crisis of last year have yet to be revealed. Some are already clear. Stock markets have fallen dramatically, consumers are increasingly worried to spend and governments have been asked to bail out companies and in some cases whole industries.

We believe that central to this crisis is trust. We don't trust free market economic growth and development collapses in such times an unwavering long term orientation; clear strategies, strong values and discipline implementation are essential to prosper.

We believe that Nestlé displays all of these attributes and we know that our company will come through this present crisis even stronger.

Our company has created a strong momentum; the results of 2008 reflect this. The Nestlé model calls for a long term growth of 5 to 6% combined with an annual improvement in our EBIT margins in constant currencies.

In 2008 in absolute terms our group sales grew to almost 110 billion CHF representing 8.3% organic growth. As for profits we achieved an EBIT of 15.7 billion CHF, with a margin improvement of 30 basis points reported, which is 50 basis points in constant currencies.

Our EBIT margin has now reached 14.3%. Net profit also climbed significantly to 18 billion CHF, including the profits from the sale of 24.8% of Alcon to Novartis. Our underlying earnings per share grew 10.9% in constant currencies.

The share buyback programme launched in September 2007 is on track and will be completed subject to market conditions within the 36 month period originally planned.

The group spent 8.7 billion CHF on buying back its own shares in 2008 which brings the total amount of repurchased shares to 13.1 billion CHF.

Now in 2009 the group is giving preference to the dividend as evidences by a 14.8% increase in the proposed dividend. And intends to invest about 4 billion CHF in repurchasing its own shares.

Despite the many challenges in the latter part of 2008 we not only achieved the Nestlé Model, we out performed it. This performance confirms our strategy. We identified the challenges very early on. We adapted our action plans accordingly and we were swift and agile to adjust in the many countries where we operate. So with these introductionary remarks ladies and gentlemen I ask now Jim Singh to run you through the details of our 2008 results. I will then return to take up some specific issues related to our business in 2009. So Jim.

Jim Singh: Thank you Paul, good morning to everyone. 2008 was a really good year for Nestlé, particularly so in a year when global business conditions deteriorated sharply. The achievement of 8.3% organic growth was above our October guidance and significantly above the financial markets expectations at the start of 2008 and significantly above our Nestlé model.

Equally our improvement in the EBIT margin was inline with the financial markets consensus, arguably it was even ahead in terms of operating performance because we met consensus despite the 20 basis points negative currency impact.

The EBIT margin performance demonstrates Nestlé's ability to overcome challenging marketing conditions. In 2008 those challenges included significant input cost inflation and price volatility, weaker consumer demand and adverse currency impacts.

As some of these will recur in 2009 you can take comfort from our proven ability to manage successfully through these challenges.

The Food and Beverages business was the key contributor to performance with 8.2% organic growth and a 40 basis point improvement in EBIT margins in constant currencies. For the second year in a row this performance was broad based. Each of the three zones as well as Nestlé Nutrition and Other Food and Beverages achieved a good level of organic growth as well as an improvement in their EBIT margin.

This demonstrates the momentum in our business and is one of the reasons why we remain optimistic for a further improvement in our performance in 2009 despite the tough environment.

The 2008 performance was built on the twin pillars of growth and efficiencies. The Billionaire Brands, about 70% of our food and beverage sales were the key drivers of growth. Many outperformed their markets, driven by continuing focus on Nutrition, Health and Wellness, by our accelerated targeting of the particular needs of consumers in different economic circumstances, by our significant presence in the emerging markets, by near 10% growth with our top ten customers and by our multi channel, multi price point strategy.

On the efficiency side we already saw the benefit in 2008 of our accelerated focus on cost savings and the higher returns on expenditure throughout the business. This helped compensate the impact of raw and packing materials inflation or our cost of good sold. It also benefited our distribution, marketing and administration costs.

Continuing the highlights of 2008, the group generated 10.8 billion CHF operating cash flow and 5 billion CHF of free cash flow. The net profit increased substantially to 18 billion CHF in part reflecting the profit on the partial disposal of Alcon, which as Paul reminded you 24.8% of the equity we held in Alcon was sold to Novartis.

More closely aligned with our operating performance is the underlying earnings per share which rose 10.9% in constant currencies. Our commitment to our shareholders is demonstrated by our proposed increase of 14.8% in this year's dividend to 1.4 or 1.40 CHF per share. This represents 3.8% yield at last nights closing price.

We continued our share buyback programme and remain committed to it today. We invested 8.7 billion in 2008 combined with the 4.6 billion CHF paid in dividend in April we have returned 13.3 billion CHF to our shareholders during 2008.

Since 2005 we have returned a total of 32.3 billion CHF to our shareholders and it is likely that we will return a further 9.1 billion CHF to them in 2009.

This slide shows the key factors in our sales performance, both for the group and for our Food and Beverage business. The two main drivers here - there are two main drivers here, first of all our internal - our strong internal organic growth of 8.3%. This performance with a positive RIG and significant pricing was perhaps the main driver of our good EBIT margin performance. As it enabled us to leverage our scale very effectively.

The second driver was external. The significant impact of currencies, which reduced our sales by 7.8%, that's in excess of 8 billion CHF.

This had a negative impact on our EBIT margins of 20 basis points reducing a 50 basis point progression to 30 basis points reported. This though is still a resilient margin performance in the prevailing conditions.

Next up is the organic growth of our total food and beverage businesses. There were strong full year performances from all three regions. There is a recurring theme to Nestlé's 2008 results as it is clear to see from this slide. Nestlé performance was broad based. I will make a few general comments about the 2008 performance before going into the detail by zone.

First of all 2008 was a year that was characterised by a high pace of innovation and renovation. The focus has been on simple to understand consumer relevant propositions around nutrition. It has been on improving value propositions and on differentiation from our competitors. There will be no let up in 2009. This drive for innovation has been supported by a step up in marketing spend, 7.5% higher in 2008 in constant currencies.

We will continue to build brand equity in 2009 and we will continue to benefit from soft media rates already apparent in 2008. As an example TV rates in the UK are the lowest for 15 years. A major advantage that we have is being able to offer consumers the ability to trade up and trade down without trading out of Nestlé products. This was a benefit in 2008 and will be in 2009.

We have also been pushing PPP hard in Europe as well as in the emerging markets and we continue to see considerable opportunity for further growth in this segment. This remains a priority area for 2009. We continue to pursue our multi channel strategy, this helps to ensure that our products are available wherever consumers shop, but also reduces our direct exposure to private label, whilst enabling us to build value added relationships with large retailers and hard discounters or indeed with any specific channel, customers or market.

Finally we have worked diligently, with discipline to improve our operating performance. This is reflecting in savings exceeding 1 billion CHF. Achieved in all areas of the business from factory gate to consumer. We will seek a further acceleration in 2009 in our operational performance.

Let's look at the details starting with Zone Europe.
2008 was a good year for the Zone with positive RIG in both Western and Eastern Europe and positive organic growth in all the major markets. We told you in October that we had already made in the third quarter sales of chocolate for Christmas normally made in the fourth quarter. Excluding chocolate RIG remained positive for Zone Europe in the final quarter.

Among categories I would highlight the performances of Pet Care with many of the brands such as Bakers, ONE and Fancy Feast contributing. Soluble Coffee was also strong, with the many Nescafé variants performing well and Dolce Gusto continuing to rollout rapidly. Its sales tripled in 2008, Powdered Beverages also grew well in particular Nesquik with its broadened nutrition offering. Pricing firmed up in the final quarter due to soluble coffee and chocolate.

Zone Americas had a strong 2008 with double digit organic growth. Both North American and Latin America reported positive RIG despite significant inflationary pressure reflected in their reported pricing.

A good level of growth in North America was unchanged in the final quarter. Among categories I would highlight the performance particularly of Pet Care and Ambient Dairy, both of which have been strong throughout the year. Frozen Food recovered during the course of the year accelerating in the second half. This bodes well for 2009. Within Frozen Food Hot Pockets achieved over 7% organic growth, a return to form.

Ice Cream's growth was negative reflecting a focus on value growth at the expense of volume with a number of lower end SKUs and less profitable direct to store delivery routes discontinued.

The good news for Ice Cream is two-fold. We held share against our number one competitor and we improved our EBIT margins. In North American Häagen-Dazs and Skinny Cow performed well.

Latin America slowed a little in the final quarter. This was due to easing of pricing in the milk business rather than in the broader economic issues. The other categories generally performed well, particularly Chocolate, Soluble Coffee, Pet Care and Biscuits.

Zone AOA achieved double digit organic growth for 2008. China's performance is over shadowed by the milk issue which resulted in the milk market falling at one stage by 50%. Our shares are significantly up. We have continued to support our dairy farmers by buying their milk and selling it into the industrial milk market. The rest of our business is doing well, demonstrated by the fact that the organic growth of the total Nestlé in Mainland China was 18% in 2008.

The rest of the zone had a robust end to the year, suggesting that our PPP strategy, our deep distribution and broad category offering as well as our continued focus on relevant innovation and renovation and on our Nutrition, Health and Wellness strategy are resonating with consumers.

Examples of relevant innovation for the current environment include the rollout of PPP Nido milk in Africa, PPP Nestlé and Maggi in the Philippines and PPP Nescafé in Indonesia. Among markets I would particularly highlight the South Asia region, especially India, the Philippines and into China. By category I could highlight many that achieved double digit organic growth with Soluble Coffee, Culinary, Powdered Beverages and Pet Care in particular all achieving high levels of RIG.

The final quarter was slightly slower for both RIG and pricing. Greater China and Japan both had a slow quarter and together account for the slowdown.

Turning to the EBIT margin performance for the three zones we achieved EBIT margin improvements in all three despite significant input cost pressure felt in many categories and the negative currency impacts resulting from a stronger Swiss franc.

The key drivers of the improved performance were operational efficiencies the benefits of mix and of rationalising under performing SKUs and the leverage of strong organic growth. We aim to push harder to accelerate our efficiency initiatives in 2009.

Next, Nestlé Waters, the trends and issues seen early in 2008 in the Waters category continued throughout the year, resulting in an exceptionally tough trading environment. Our business performed well, relative to the market in the US and relative to the branded players in Europe. The emerging market business continues to grow double digit. The decline in the EBIT margin was despite good work in accelerating efficiencies and is the result of reduced sales, increased cost pressures, particularly influenced by energy and the under performance of the European Home and Office Delivery Business.

Actions taken in 2008 beyond several cost reduction measures include exiting the low performing UK HOD business completed early in 2009. Nestlé Waters also reduced their capital expenditure in view of the changing needs of the business. This has been further reduced in the 2009 budget.

Next is Nestlé Nutrition. There was a strong year for Nestlé for infant formula, infant nutrition with near double digit growth including growth in the teens for infant formula, clearly outstripping its market growth rates. The R&D pipeline is full for the division and 2009 will be another year of launches.

We need to improve our performance in Western Europe and this is a priority for us. In general however this division is performing well. The integrations of Gerber and Medical Nutrition are on track for cost efficiencies and their integration led to some SKU rationalisation in the latter part of the year, impacting 2008 RIG.

Jenny Craig clearly outperformed the weight management industry in 2008. It also improved its EBIT margins. This demonstrates the strength of the business model and underlines our confidence in its longer term potential for profitable growth. That said it was progressively challenged during the year due to the US economic environment and we expect 2009 to be a tough year for the division.

Nestlé Nutrition reported an improved EBIT margin in 2008 though it was another that suffered from currencies in translation.

Finally, in the primary reporting is our Other Food and Beverages. There was a continued very strong performance from this category. Nespresso continued its meteoric growth and passed 2 billion Swiss francs of sales in 2008. The two joint ventures both performed well, Cereal Partners Worldwide achieved high single digit growth whilst Beverage Partners Worldwide was well into double digits.

Let's look at the product categories and I'll go quickly as we have covered much of this already. I'll start with Powdered and Liquid Beverages. All the Billionaire Brands achieved good levels of growth. We continued to drive competitive advantage and differentiation through nutritional innovation and extensions. We have also accelerated our PPP strategy for many of these products.

The EBIT margin was impacted by raw material costs as well as increased marketing support for the accelerating international rollout of Nescafé Dolce Gusto.

The Dairy business achieved double digit organic growth in 2008 due to a successful implementation of its PPP strategy in emerging markets and good price segmentation aligned with clear consumer benefits. There was a strong performance from CoffeeMate. Ice Cream's growth remained at a low level but its EBIT margin improved. The growth was impacted by a strategy of exiting under performing lower value products, some US DSD routes that were not sufficiently profitable and moving a couple of smaller European markets to a distributor model. These initiatives were all drivers of the margin improvement. The premium brands continue to perform well as do those with a better for you profile.

In Prepared Dishes and Cooking Aids the highlight once again was Maggi, benefiting from its emerging market exposure and ready adaptability to our PPP strategy. Also, note worthy was the promised improved performance from Hot Pockets which achieved organic growth of 7.2%.

The other parts of the US Frozen Food business had a slow start but accelerated during the year. The European Pizza business and Herta performed well. The product group's EBIT margin fell due to cost pressures particularly relating to wheat, however the year end EBIT margin performance reflects a strong recovery during the second half of the year.

The other notable news here was the sale of the Buitoni dried pasta business.

There was a good performance by our confectionary business with 8% organic growth and a 150 basis points improvement in EBIT margin to 13.1%. That is a level of margin comparable with any in the industry. We are the most global of any confectionary business, demonstrated by the fact that we have over 150 products that are number one or number two in the market.

We also have a very strong emerging markets business which achieved organic growth of 19% in 2008. The improvement in the EBIT margin reflects the benefits of growth in many parts of the world as well as the restructuring in Europe.

The KitKat innovation continued to gather pace during the year. And the brand ended with over 13% organic growth driving mainly by the launch of the four finger - the relaunch of the four finger bar. The launch of KitKat Senses is also going well and is being extended to new markets.

Next is Pet Care. All regions achieved a high level of organic growth with a strong base of RIG. The product group's EBIT margin improved to 15.7%. Many brands achieved high single digit, or even double digit growth driven by compelling health propositions for dogs and cats. This business continues to reap the benefits of a full pipeline of innovation, applicable around the world and closely aligned to the concerns of pet owners.

The challenge for the product category has been raw materials. Initially it was grains, but more recently it has been the minor materials such as vegetables, meats and vitamins that have been increasing and actually becoming quite material to the business. The extent of the EBIT margin improvement was held back by the US dollar on translation to Swiss francs. But this was a very good performance after being behind 2007 at the half year.

Finally, in Pharmaceutical products, there were good performances from all three constituents with Alcon, Galderma and Innéov all contributing to EBIT margin improvement and strong growth.

Next is the EBIT bridge showing the movements between 2007 and 2008. The bridge has a similar shape to that at the half year. The impact and cost of goods has reduced but remains significant, reflecting the fact that we already experienced cost pressures in the second half of 2007.

We had a strong performance; there were cost savings achieving over 1 billion CHF. These savings benefit all areas down to EBIT but were most significant in cost of goods.

Distribution costs were unchanged from the first half, down 30 basis points. The two key factors here are the slow growth of Nestlé Waters which is distribution intensive as well as efficiencies in the supply chain.

The reported marketing spend is down by 80 basis points in 2008. As you know this is the line on the income statement that includes all expenditures relating to marketing, not just the consumer facing spend.

The reasons for the 80 basis point decline are the same as at the half year. We have continued to work on efficiencies in the non-consumer facing expenditure as well as improving the effectiveness of our marketing costs. And our reported pricing was 5.5%, obviously we don't increase these costs inline with pricing and that creates a significant leveraging of these costs.

Importantly consumer facing marketing expenditure increased by 7.5% in constant currencies, slightly more than the 7% reported at the half year. And this was despite some softening of media rates. This demonstrated our commitment to build our brands; we will continue to do so in 2009.

Inline with our comments at the first half the administrative costs have show good improvement over the course of the year, down 50 basis points. GLOBE, GNBS, and several other initiatives are contributing, but we also benefit from leveraging on our fixed costs.

Administrative costs continue to be an area of focus for us. Finally R&D spend increased by 10 basis points. We also opened our second R&D centre in China as well as one for Nestlé Professional here in Switzerland. Nestlé Professional was organised as a globally managed business effective January 1st 2009. Whilst managing through this period of change, Nestlé Professional achieved over 6% organic growth in 2008.

Overall therefore the group's EBIT margin improved by 30 basis points. Or 50 basis points constant currencies. We believe this reflects a strong operating performance in a tough environment. We also think that this performance reflects that fact that we have good momentum in our business in terms of efficiencies and excellence in execution. All key areas of focus for the current year.

This slide pulls together many of the achievements in 2008, strong financial discipline reflected in areas such as operational efficiency, trade spend effectiveness and management of administrative costs.

It was also reflected in 10% growth with our ten top customers. We continued to achieve scale benefits in areas such as GLOBE and GNBS which are contributing to reducing complexity in our organisation. Divestments, fewer factories and legal structures are examples as is our on going programme of SKU rationalisation.

And of course we continue to invest for growth, whether through our increased R&D spend, our capital expenditure, fill in acquisitions or increased investment in consumer facing marketing expenditures.

I will quickly summarise. 2008 was a very strong year for Nestlé. We exceeded our organic growth guidance and achieved a level that was slightly above the market's expectations at the start of the year. We have also delivered a sustainable profit improvement in our EBIT margins, despite the diluting impact of currencies and the tough trading environment.

2008 was a good operating performance with six out of our seven primary reporting segments combining good organic growth with an improved EBIT margin. I know you're all now focussed much more on 2009, so are we. It is clear that in the current market conditions we will grow slower than the high level achieved in 2008. We need to compensate by pushing harder on the cost side of our business. And our good performance and cost savings in 2008 provides momentum for 2009.

In a climate where growth might be scarce for some, we are also pushing harder for growth by accelerating the roll out of new launches and by pursuing relevant category strategies for the current climate. Our Popularly Positioned Products are an obvious example of that and this is an area that we are expanding on a global basis.

Our guidance reflects that more difficult environment in 2009. We stick with our traditional guidance of improving the EBIT margin in constant currencies. For growth due to the very strong start in 2008 we expect that we will pick up pace during the year, such that by the end of the year we will at least approach 5% organic growth. I'll now pass you back to Paul.

Paul Bulcke: Now thank you very much Jim. Jim has taken you through the key drivers of our strong 2008 performance, it was a solid performance. So I will focus on some specific areas of our business and how we are planning to win in 2009.

Nestlé has a strong performance engine which is bringing us through the present currents. The main force behind our growth is our brands. Their success is increasingly derived from their inherent nutritional credentials. The company's commitment to growing its brand is demonstrated by a 7.5% increase in consumer facing marketing spend in constant currencies. And by increasing our annual expenditures by 15% we are leveraging our R&D platform and focussing on deliverables.
The 2008 performance therefore demonstrated Nestlé's ability to continue to achieve profitable growth whilst absorbing cost pressure, driving efficiencies and investing for the future growth.

Nescafé and KitKat are both over 70 years old, or should I say young, as Nescafé achieved almost 10% organic growth last year and KitKat achieved well over 10%. This bodes very well for continued growth also in 2009 and beyond.

Both benefited from a renovation of existing lines and from innovation with the launch of new variants. And KitKat, much of the growth came from the renovation of our standard KitKat product. In Europe it was reformulated with a crispier wafer and smoother chocolate. It is quite rightly described as the best KitKat ever. The learnings from this brand renovation are now being rolled out worldwide.

KitKat Senses is an excellent example of brand innovation. Our use of Web 2.0 communication tools allowed us to target the brand in new and different ways. This slide illustrates the KitKat Senses UK website. KitKat Senses are so good we left some samples on your tables for you to taste during this morning, so enjoy them.

On the other side of the channel in France one KitKat consumer won a trip to space and another, the exclusive use of a tropical island for three days. It becomes handy when the situation out there is so black. This reminds us that promotions are part of the huge success of the brand and its sustainable and increasing sales. It also demonstrates the potential of internet based communications for our company as well as our creative marketing savvy.

In line with our transformation to a Nutrition, Health and Wellness company branded active benefits have been integrated into an increasing number of Nestlé products. These deliver a consumer relevant health benefit, often through a proprietary ingredient, a mixture of ingredients or a proprietary process. And for example Milo with Actigen-E is composed of a combination of vitamins and minerals and is high in magnesium and calcium. This promotes the effective release of energy from the proteins, fats and carbohydrates in food.

In 2008 Nestlé products carrying branded active benefits grew by over 20% in constant currencies, reaching the five billion Swiss francs milestone. Branded active benefits will continue to differentiate our brands from the competition and further enrich our nutrition credentials.

As you see branded active benefits have been added to many of our long standing successful brands as well as to new products. This is part of our innovation and renovation strategy which is keeping well established brands relevant to consumers and bringing new ones to market quicker than ever and at different price points.

Now 60/40 + is a proprietary product assessment tool that helps to continuously improve both the taste and nutritional value of our products. In 2008 an additional 15% of our products went through a 60/40 + testing. In addition to those in past years. 60/40 + testing is an on going process resulting in a continuous overhaul of the Nestlé product portfolio year in and year out.

Nestlé Nutrition has reinforced its world leadership position in specialised nutrition as a result of the successful integration of Gerber and Novartis Medical Nutrition. Healthcare Nutrition is now fully integrated with dedicated products having been rationalised.

Strong performances were achieved in infant nutrition and infant formulas. Supported by a highly productive innovation and renovation pipeline. Jenny Craig achieved double digit organic growth in 2008 in spite of a somewhat softer second half. Nestlé nutrition EBIT margin improved to 17.3%.

Now a long term growth trends for food consumption and the Out of Home sector exceed those of in home food. This is why we created Nestlé Professional to manage this business. From the beginning of this year Nestlé Professional has full operational and financial responsibility for this business. 2008 was a year of organisation into a globally managed business where Nestlé Professional refocused its activities on branded beverage solutions and on customised food solutions on the other hand.

Now the weak economic environment penalises the Out of Home market in 2008. But despite this Nestlé Professional achieved 6.1% organic growth reaching 6.2 billion CHF in turnover.

The Out of Home concept has been traditionally been associated with developed economies. This is now evolving as Out of Home food gains a stronger hold also in emerging economies. Our company reaches excellent growth in the Out of Home market in China for example, which exceeded 25%. We also achieved solid growth in other emerging markets like Mexico with growth above 20%.

Another sector that reported strong results was Nestlé Purina, Pet Care, with sales up to 12.1 billion CHF. This growth was driven by a resilient demand for premium and super premium as well as by innovation, with new product launches such as Cat Chow, Healthful Life or One Natural Balance.

The Nestlé Purina brand, Beneful retailing in the premium dog food segment achieved organic growth of 38% in 2008. This is an encouraging sign for the future of this segment in the Pet Care business.

Remaining in the premium and luxury segment Mövenpick of Switzerland, one of our premium ice cream brands registered a 40% increase in sales in Russia for example in 2008. And in its home market, Switzerland where we manufacture Mövenpick the brand continues its upward climb with an 8% increase in sales, with further roll outs foreseen in the whole of Europe.

We believe that consumers will continue to purchase these moments of affordable luxuries in 2009 and beyond. It also gives me great pleasure to see that we continue to win with Nespresso, our leading super premium brand. Nespresso sales went past the 2 billion CHF threshold last year, ahead of schedule. The brand continues to grow at over 30% per year. And in the last two years Nespresso sales have doubled.

Last year we launched the Nespresso Chocolate collection, which is sold in a growing number of Nespresso boutiques. As such during 2008 an additional 44 boutiques and in shop units were opened. There is no better example of innovation at our company than Nespresso. And since I started talking about Nespresso around a minute ago, 8000 capsules have been sold.

So, moving on this year, firstly we do not believe, we do not believe that 2009 will be all doom and gloom as some would make us think. Let me remind you that many major emerging economies are still growing, China and India for example. Some of this growth will be generated through the domestic stimulus initiated by governments, including China. This will go into consumption, directly.

However, it would be foolish to say that the world has not changed. Of course it has changed. But because we have strength across many product categories and income brackets we are able to leverage changing circumstances to our advantage. People are going through a period of trading down and tighter budgets.

For example our food sales will gain as people cut their expenditures on out of home dining. Stouffers, Lean Cuisine for example in the United States as well as our Maggi and other culinary products will benefit. And with our diverse product and brand portfolio we are able to cover all income levels and provide solutions to the changing purchasing patterns of the current environment. Adapting to consumer requirements. There is quite obviously growth and opportunity in the current downturn and our company intends to make the most of these.

Take a look at this chart; across the world population growth is greater at the top and at the base of the income distribution. The number of people with annual per capita income above US$22,000 is forecast to grow by 40% by 2015. Those with incomes between $3,000 and $13,000 will grow by 31%. These basic underlying trends will not dramatically change over the medium term. In absolute terms population growth with be the biggest among lower income groups. And this is where we target our Popularly Positioned Products, our PPPs. They are designed to be affordable on a daily basis for emerging consumers.

Many of these are entering into the cash economy and buying branded goods for the first time. PPP takes us to this new market segment, one of fast growth and high potential. In some markets PPP growth is quite spectacular. Regions of Latin America for example are growing at a rate of over 50%, with a PPP base of over 500 million CHF already.

In regions such as Southern and Eastern Africa and in the Middle East PPP continues to grow at about 40%. One third of the world's population is deficient in iron, iodine, vitamin A or zinc or a combination of these. Our company is responding to this challenge through fortification of our product and product portfolios. We are currently mapping our fortification efforts against the known deficiencies across the globe.

Our PPP offers superior nutritional value at lower prices. For example we sell 75 million iodine enriched Maggi cubes each day in Africa. Other products which are fortified include affordable milks as well as beverage products, such as Milo, Nesquik, and Nescau. But in today's economic environment the success of PPP is not limited to the Americas, Africa, Oceania or Asia. For example 60% of the Russia population are regular consumers of our Confetti chocolate brand. The strongest penetration is in the low to middle income groups and is growing substantially.

Another example, this time in France is our Maggi bouillons and frozen food range targeted to ethnic and immigrant groups. Sales in this segment grew to 8 million euro in 2008 and will continue growing in 2009.

In the context of the present economic downturn more and more consumers in developing and developed economies are trading down to PPP. With a strong sales acceleration in the second half of the year PPP in Europe achieved organic growth of about 30% with 22 countries contributing.

Zone Americas achieved 25% growth in PPP and Zone AOA 27% of growth. Worldwide all specially defined and tracked PPP initiatives alone now represent over 5 billion Swiss francs. Again we believe that PPP growth in both emerging markets and developed economies is an indication of evolving purchasing trends among lower income groups. This is in line with what we predicted given the current economic climate, and we expect continued strong growth and PPPs also in 2009.

Now trading down and changing consumer patterns have intensified channel diversification and Nestlé has reinforced its presence in all channels. This is reflected by the number of retailers listing our products which is increasing each year. Sales to our top ten retailers increased by 10% and our business with these counters also increased where we are engaging more firmly.

Confident of our growth our company has increased also investments in new capacity to fuel this. We are expanding factories, building new ones and creating new growth platforms for our nutritional, health and wellness platforms. Each billion of Swiss francs that we add to our sales means producing hundreds of millions more products. For example we invested 300 million Swiss francs in a new Nespresso factory and distribution centre in Avenches in Switzerland. This took less than 18 months to be completed and has been operational since last summer. By end 2009 it will be running at its full capacity of 4.8 billion capsules per year. 50% more than its sister factory in Orbe.

Our company is also creating the platforms for the growth and development of new and innovative nutritional products. In the city of Anderson, in Indiana in the United States, we have just finished a $360 million investment in a new factory. This will allow us to create and develop new and innovative ranges of healthy and nutritional beverage products. The Anderson operation has been built in line with the third party LEED certification. These are knowledge's, leadership in environment and environmental design. The press conference of the Anderson factory opening will take place on 4th of March and will be webcast.

Also in United States, in Wisconsin state, our infant formula operation in the town of Eau Claire will be tripled in size. As the City Economic Development Administrator said, what perfect timing when every day you are hearing about plant closings and layoffs. We are also building and expanding in other continents. In Russia for example a coffee factory. In Dubai a milk powder plant. In Malaysia in a new dairy creamer unit. In Japan in a new pet bottling plan. As well in our Asian noodle factory in India.

So when I say that we do not see the world in 2009 in terms of doom and gloom, I was not just referring to our excellent results in 2008. I'm also talking about our confidence and our investment in the future and the jobs which this is creating over the next years. Nestlé is constantly accelerating and evolving as we believe that the only constant in good times and bad is change. We don’t wait for bad times to redeploy our resources or to be forced into restructuring. This means that we are better placed to see the storm through. We are constantly fine tuning and engineering our organisation for optimal performance. Our focus is clearly on acceleration, getting more done with the same resources, doing things quicker, faster and smarter and with more impact.

Nestlé has 280,000 people who know that to achieve our ambition we must share one vision and be aligned behind a clear strategy. This ambition is to be recognised as a world trusted leader in nutrition, health and wellness, and to be the reference for financial performance in our industry. We express this strategic alignment at our company with a simple chart which we call the Nestlé roadmap. This sets out the strategic and performance framework that will allow us to achieve our ambition. It is key to our continued growth and even more relevant to today's environment. This is why we explained this in detail to our shareholders in our management report to be published next month.

As you see with this slide our competitive advantages are our diverse product portfolio and brand portfolio, our industry leading R&D capability, our unmatched geographic spread and our people values and culture. And the other slide shows how the four growth drivers which are nutrition, health and wellness, the emerging markets, the Popularly Positioned Products the PPPs, the out of home market, and four the premiumisation. And yet in the other slide the four strategic pillars that are guiding our actions on a daily basis they are innovation and renovation, operational efficiency, product ubiquity and consumer communication.

We believe that our strategy and the roadmap position as winners, regardless of the business environment. They do this by giving Nestlé excellent defensive characteristics, but they also create a platform for profitable growth that has proven itself to be one of the most vigorous in the industry. This roadmap gives us a clear, simple framework. Its strength is that it allows our people to delegate and empower their teams with increasing individual responsibility and autonomy across all levels of our company. This alignment permits more flexibility, more initiative, more creativity, more discipline and faster action and execution.

I would like also to reiterate our fundamental commitment to the principles of creating shared value. Some might describe creating shared value as an approach to corporate, social responsibility. We describe it as our way of doing business. This is not an add on that we discard in troubled times. On the contrary, creating shared value is based on the firm conviction that only by creating value for society as a whole you can create long term value for your shareholders.

In 2008 Nestlé was once again included in the gold class of food producers of the Dow Jones Sustainability Index. This is compiled by a sustainable asset management. Third party recognition is great to have, but we run our business like this because we believe it is the only way to secure long term success.

As part of our creating shared value strategy we have identified three long term priorities critical for Nestlé and for growing both shareholder and societal value. The first one of these is nutrition where we are creating more nutritious, better tasting, affordable food and beverages for consumers at all income levels. The second one is water scarcity, a critical area where we need to ensure availability for our businesses and improve people's access to freshwater supplies, particularly in vulnerable regions. And the third one is rural development which includes investing in operations close to suppliers and consumers in emerging markets, to build our presence and improve the living standards of rural communities at large.

Now before concluding let me briefly comment on L’Oréal. The conditions of Nestlé's agreement with L’Oréal are public. The main point of the agreement states that the Bettencourt family and Nestlé will keep all of their L’Oréal shares until at least 29th of April 2009, and not increase their respective stakes in L’Oréal during the lifetime of Madame Liliane Bettencourt and six months after that. This is a commitment which Nestlé will honour whatever the circumstances.

Consequently Nestlé does not need to take any action or decision regarding its stake in L'Oréal in April. The future of Nestlé's participation in L'Oréal is an important topic for the group which the Nestlé board of directors is addressing with great attention in the framework of our group's global nutrition, health and wellness strategy.

Nestlé participation in L'Oréal has been beneficial to both companies for many, many years and Nestlé will continue to take a long term strategic view into shareholders' best interests.

So this brings me to my concluding remarks. The global business environment in 2008 was affected by a number of unforeseen events, especially in the latter part of the year. Economies around the world have significantly weakened over the last few months and it is likely that developments could further impact consumer demand. However we believe that we will once again be one of the fastest growing companies in the industry this year, in line with the long standing Nestlé model. And for 2009 we are committed to achieve organic growth at least approaching 5%, as well as a further improvement of the EBIT margin in constant currencies.

With history dating back to 1867 Nestlé's approach has always focused on long term perspective alongside short term results and pragmatism. Beyond the trepidations of 2009 our economies will evolve and adapt to this fast changing world, moving ahead. Food and beverages will increasingly be judged by their value added intrinsic nutritional advantages and values. And our product and brand portfolio is well positioned to benefit from these basic trends.

Furthermore over the next ten years an additional 1 billion new consumers in emerging markets will enter the cash economy. They will be able to buy our products on a daily basis and it is our hope that as we move through this crisis and come out of it, the resulting new world will be one of increased stability, sustainability and prosperity for us all.

Well ladies and gentlemen thank you for following this morning's proceedings and I now pass you to Robin Tickle who will manage the question and answer session. Thank you very much.

(for Q+A please refer to audio webcast or podcast)