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OVERVIEW:

Co. reported 1H17 recurring EPS of EUR1.69.

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PRESENTATION

Operator

Good day, and welcome to the Danone 2017 First Half Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Nadia Ben Salem-Nicolas. Please go ahead.

Nadia Ben Salem-Nicolas - *Danone - VP Investor Relations*

Good morning, everyone. This is Nadia Ben Salem-Nicolas, head of IR Team. Welcome to Danone's half year 2017 results presentation, which will be given today by Emmanuel and Cecile.

Before we go through the presentation and your questions in the second step, I draw your attention, as usual, to the disclaimer on Page 3 related to forward-looking statements. And also, for the sake of clarity, one precision: In the presentation "new Danone" refers to the combination of Danone and former WhiteWave in the second quarter.

And with that, I hand it over now to Emmanuel Faber.

Emmanuel Faber - *Danone - Vice Chairman & CEO*

Thank you, Nadia. Good morning, everyone. Thank you for being with us. I know it's a very busy day indeed for all of you, so we appreciate your attendance. I'm here with Cecile and the team.

Let me start by jumping to Page 4 of the presentation and spend a bit of time on this one because I think the title is a very accurate summary of what happened during this first half of 2017 for us, a pivotal period in our transformation agenda. Pivotal because it started with a management reorganization. As you all remember, in January, we decided to shorten our Executive Committee team by 30% to put in place a grid of regional leaders that have a global role, making global decisions at the regional level, which is a significant pivotal change towards a more localized agenda for Danone strategic transformation. And also, the creation of 2 very important functions, the Growth and Innovation process and Resource Efficiency process, which has allowed us to enter into our decoupling agenda, which again based on the resource allocation process that we put in place since 2 years is a material enabler for us to drive the agenda towards 2020 and deliver the short term in the meantime.

The second big pivotal move has been, of course, from a strategic standpoint, the closing of the WhiteWave transaction finally in April, so we've been 2.5 months into that now, with the first synergies coming in and very active management, as well as the successful disposal of Stonyfield for a price tag of nearly $900 million, 20x EBITDA, which confirms the very attractive strategic interest of all these activist, forward-looking brands on the Alimentation Revolution.

The last pivotal move is actually graphically on this page. We've turned our visual identity, our child from left to right. Looking at the right side, to looking at the future, seeing the same star, but much closer execution of our logo and visual, and the "One Planet. One Health", which is going to be -- and has already started to be -- an overall brand signature for everything that Danone is going to support in the future.

And if I turn to the next page, Page 5. These first half numbers that we will share in a minute are really for me due to be looked at in the context of what we shared with a number of you in evian 2 months ago in May during the investor seminar, which is reconnecting the midterm agenda and our numbers with the new reality in which we live, with our categories in this very volatile environment for food and beverage category around the world. The new set of objectives that we have set for 2020, keeping the ambition of a strong profitable sustainable growth beyond 2020, and by 2020, a 4% to 5% sales growth like-for-like, recurring operating margin above 16%, a 3x maximum leverage ratio, and our ROIC, back to 12%.

All of this is enabled by the decoupling of our efficiency agenda and the growth agenda, which if I turn to Page 6 now is what allowed us to basically be fully in line with the roadmap for this year on the first half of the year with a slow start on growth, as we have said would happen. And of course, without the very disciplined mechanism that we had put in place and this decoupling, Danone would not have been able in the past to post a very strong improvement of our recurring operating margin, 91 basis points in the context of such a slow start for the year without that mechanism. And that allowed actually our operating margin to jump beyond the 14% bench on the first half of this year, posting a double-digit recurring EPS growth, which, for me, is well in line with our ambition to deliver a consistent EPS growth over the midterm and a very strong cash flow improvement for the year.

Turning to the next page, a few examples of the efficiency plans. Reminding you of the adaptation, the simplification of our dairy Europe organization, from 9 to 5 clusters, only 2 levels of discussions when it comes to marketing execution instead of 4 before that in the brand management organization in particular. That's paving the way, with a new team in place now and a new organization, to a gradual comeback on this category going forward.

In the middle of the chart, the start of our protein efficiency program that we launched and we have explained I think extensively already. The 3 pilots have been launched, the smart category engines. And 18 of them, on these services and goods categories, have started to work, and we will learn a lot from this year's experience to go full blast next year.

And finally, on the right, the start of the WhiteWave synergy delivery. As you heard Cecile already sharing with you, we landed the plane, we are closing the Denver headquarters as we speak. And we've had already the first contribution into our numbers of the synergies after 2 months of running the business.

So this is for the short-term delivery. Page 8, we've also been working on the very short-term delivery agenda for Danone -- business agenda. I'm sharing this chart with you because this is where my team, myself, are spending most of our time. And that's about, for EDP International, continue to work on the turning around of Europe, and addressing the Brazil situation, sustaining the outflow growth momentum, which has actually accelerated in the course of Q2 from where it was in Q1.

For North America, it's about integrating WhiteWave obviously and starting to deliver the synergies in H2. Our specialized Nutrition business, as you know, now encompassing both baby food and medical nutrition, has been very active in China in actually both categories. But in particular, we've worked a lot on the Early Life Nutrition to speed up, accelerate our direct channel in China. It's been incredibly successful and continuing to address the growing tailored nutrition needs over the planet, with a continued increase in the prevalence of allergies. We've been growing that allergy business more than 10% in the second quarter of the year.

And finally, in Waters, we've been preparing the post transition in China. There are early signs of the category resuming growth for beverage in China. And with Mizone holding its share, it bodes well for the end of the negative impact of the China beverage on our overall performance, while we continue to build our strong local growth platforms in Waters.

In the same time, and as always, for us at Danone, turning to Page 9, we've been also preparing our mid and long-term growth journey. And the words that you're seeing on that page would remind you of the ones that I shared in my presentation in evian in the investor seminar about this passionate, reengaged, reconnected relationship of people with their food and drinks; how small local brands are the new big ones; how transparency is an absolute must for consumers everyday more; and how important it is for consumers, and employees, and civil society to understand, to trust the people that are behind the brands.

Very concretely, on Page 10, we have been actively working on the Alimentation Revolution. And I have put here a few examples. Let's start with, obviously, the big strategic choice of pushing into plant-based. And all these examples here are about plant-based. It's about -- starting with the top left, accelerated plant-based and desserts expansion everywhere. In particular, in the U.S., we've grown the TDPs in the Q2 of plant-based yogurts anywhere between 10% and 20%, including with the launch of a new SKUs and almond launch for Silk, dairy free, soy free, a very interesting product that we've launched under the Silk brand. It's been the line extensions of Alpro, a very successful strawberry high-protein Go-On product. That's already one of the top-selling of the range after a new couple of months on the market.

More ingredients, more protein, less sugar, that's the agenda. And we've been executing this in a lot of the plant-based beverage range that we have. On Silk, high-protein is successfully ramping up its TDPs and its distribution, numeric distribution in the U.S. We've added new ingredients to the Alpro range, driving also with Provamel, the organic brand of Alpro in Europe, a slate of oat-based products, which also allows us to enter into or push into new moments of consumption.

We've -- on the top right, we've also been growing into adjacent categories. You heard me say, about a year ago, when we announced WhiteWave, that it was one of the many attractions for us, new moments of consumption, adjacent categories, new channels. So adjacent categories has been -- in a few examples here is the launch, very selective launch of cheddar and cheese nondairy in the U.S., in the natural channel in the Q3 coming, and already very successful launch of Alpro in the U.K., partnering with Tesco in April, which is ice cream, dairy-free ice cream. I can tell you the rotation on shelf is already comparable to Ben and Jerry and Haagen-Dazs. So it's a very, very successful launch. And again, I mean it says so much about how consumers are driven by the flexitarian aspect of their consumption and the attraction of the plant-based into many categories. And finally, geographical expansion. As we have really shared with you, we've launched VEGA in Europe with a selective number of key customers.

Preparing the future is also on Page 11, about new channels, as I said, new moments of consumption. So let me start backwards on this chart. The breakfast moments, on the bottom right, we spoke about Activia relaunch and -- how we are currently reworking in many aspects on addressing the relaunch in Europe. The launch of a new cereal range with a new visual, a new formula is a significant contributor to the success of Activia for the coming years, and it pushes Activia into the breakfast opportunity. The same happens with, as I said earlier, the introduction of oat, and pushing oat a lot in the Alpro range, which perfectly fits the breakfast moment.

Going up on on-the-go, all of these, I think you already know, but we're just pushing them further, the Santos Store, Horizon Organic for kids, Good & Go replacing some ugly stuff that kids are proposed with to go for lunch. Volvic, with a range of sugar-free or extremely low sugar products on-the-go. And VEGA, which we're accelerating into a bar -- the bar format for various moments of consumption.

On the left, evian is already number one SKU in the Amazon Prime in France. And of course, the Amazon Whole Foods transaction is right on spot in terms of our strategy and how we can offer. We've already started discussing with both how we can offer, doubling down our businesses with them.

And I'll finish on this chart with the high-performing Aptamil brand for us, our largest global brand, as you know, for baby food, which has been very successful in China in establishing our direct presence I was referring to. We've gone through an exclusive GD Walmart launch, plus an exclusive What Kids Want, which is the largest Mum & baby stores chain in China in the Q1. Then going into nowadays a launch which is entirely digital. That allows a very strong growth for Aptamil in China, above 20%. So very successful in shifting towards new channels, including in such an important country like China.

We are addressing the small and local, our new bigs, as you know, and we shared already that number, our young and local heritage brands, including in what is a challenged category for growth now, which is Dairy for us. And within Dairy, these brands in Q2 have been growing more than 10%. That trend continues. And it's true for all of what you see on the left here, whether that's Danio in several of its key countries, our high-protein Greek yogurt. Light & Free in the U.K. continues to be very successful, Yogurisimo in Argentina; Danissimo in Russia; Les deux vaches in France and in Spain our organic brand; and Oikos in Italy and a number of other countries, our white indulgence product, all of them are very young brands, very locally executed, and they grow fast. And that's one of the things on which obviously we are learning and we are pivoting some of our resources to make sure that we address this opportunity.

A quick, on Page 13, update, on an important transparency work that we are doing on the U.S. Pledge. As you know, we are very excited that our first entirely non-GMO products, SKUs, have been shipped early July as planned and will be fully -- the plate will be fully on by 2018, as we said. We are today the only brand on the market that's able to provide milk coming from cows that have been fed with non-GMO ingredients apart from, of course, the organic segment, which is still a very promising one, but one with a premium that we believe allows non-GMO to really become the new norm in terms of how people will think about natural in the future in the U.S.

And I'll finish this introduction by turning to Page 14 to tell you that preparing the future for us is also about new business models. You know both of the Danone Manifesto Ventures and the Manifesto innovation accelerator, units that we put in place 2 years ago. This is a bit of an update on where we are on a few of very interesting investments that we've made. We've reported on, I think, all of them. And it's a mix of direct operated partnership that we have made with entrepreneurs or even intrapreneurships that we've conducted, including the U.K. experience of the manifesto innovation accelerator with a pop-up store experience in London, very promising. And also, a couple of strategic partnerships that we've made with food and beverage incubators -- AccelFoods in the U.S. and also Vantec which is very active in China.

So in a nutshell, if I turn back into Page 15, back to this kid. What's important is to go back to what we shared in evian together in the investor seminar. This kid is fit for today, it's fit for tomorrow. And the results, but also the underlying activities that I've been summarizing that took place at Danone in the first half of this year, are a very strong start of the journey.

And with that, I'll turn to Cecile now. Thank you.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Thank you, Emmanuel. Good morning, everyone. Thank you for attending the call. I know it's a very busy day, so I will try to be as efficient as possible.

Starting with Page 17. H1 results are in line with expectations. They show that despite an unexpected low start of growth for the year, the recurring operating margin improvement has been very strong at 91 basis points, ensuring the delivery of double-digit EPS growth at constant exchange rates, so fully in line with our full year guidance. And finally, we have delivered a very strong cash increase of 24.4%.

Let me just go through the key topics for the semester before I go into digital metrics.

First, the macro context remained overall fragile, and with, on one hand, some transitioning markets like China and Brazil, and on the other hand, a U.S. food category environment that continued to be soft. As we previously said, the topline will accelerate in H2 as some context elements are easing along with favorable base of comparison and some of our initiatives developed in H1 will start to deliver.

Second, as Emmanuel mentioned, we have started our Protein program. As per our plan, we have already launched the first 3 country pilots in Q2, as well as our smart categories to make sure that we are fully ready so that we can go full blast into '18, and we are fully on track in our roadmap delivery.

And third, we started onboarding WhiteWave in the course of Q2. To that extent, Q2 has really been a quarter of on-boarding, with 3 priorities: integrating the businesses and reengaging the team; continuing to fix short term operational issues; and starting the delivery of our synergies agenda, with, in Q2, a EUR 10 million EBIT impact.

In parallel, we have reached an agreement with Lactalis for the sale of Stonyfield for a solid multiple of 20x its EBITDA 2016. We just got approval from the Department of Justice 2 days ago, so we will proceed with closing in the very early days of August.

Let's now go through the metrics in more details. And I will start with the classical sales bridge on Page 18.

On a reported basis, we are posting a 16 percentage growth. First, of course, there is an important base effect deriving from the consolidation of WhiteWave for 14.9%. There is a negative scope effect of minus 0.4%, which is mainly due to the sale of Fresh Dairy operations in Colombia and in Chile. A positive currency impact of 1.3%, thanks to favorable impacts of the Russian ruble, the Brazilian real and the U.S. dollar.

And moving to the like-for-like new Danone growth, so as Nadia reminded at the beginning of the call, it corresponds to the like-for-like growth for both Danone and WhiteWave combined in the second quarter. The results of 0.2% growth reflects a negative 2.1% effect in volume and a positive value effect of 2.3%.

I propose that we review the results through the new reporting lines to get more color and more granularity. And I move on Page 19.

Before going into the dynamics, I just would like to go through the different categories; so as you know, we now look at Essential Dairy and Plant-based as one category. First, with EDP Noram, which is the combination of former Dairy and former WhiteWave activities in Noram. Second, EDP International, which is the combination of former Dairy and WhiteWave activities outside Noram.

In parallel, we have combined Early Life Nutrition and Advanced Medical Nutrition, and reporting them together under the Specialized Nutrition to reflect the new organization where the 2 categories are now under the same leadership to boost our synergies and accelerate momentum. Waters category remains unchanged in term of reporting perimeter.

So if we look at Q2, we are posting growth and margin improvement in 3 of our 5 categories: Water, ELN and Medical while Essential Dairy and Plant-based was negative. And I will go now through each category into detail.

Starting with EDP Noram. Q2 has been a quarter of on-boarding, as I said, after a long closing process that ended on the 12th of April. The performance in Q2 reflects different dynamics per category. On the positive, the Yogurt retail business in the U.S. continued to demonstrate resilience in Q2, gaining market shares in a category that is slightly declining. Coffee creamers continued to display a sustainable momentum of growth ahead of the market and supported by a great acquisition of brands and portfolio.

On the negative part, the performance has been driven by the same issues that we previously flagged at our Seminar around the brands Silk, Earthbound and Horizon, impacting both the margin and the growth development in Q3.

In the first 100 days after closing, our actions have been around the following priorities: First, reengage the teams, and in particular, the sales team to regain customer strategic momentum in H2. They are in action, the first joint national sales convention has just happened yesterday, and the teams are already starting cost promotions and activation to accelerate sales momentum. In addition, we are leveraging that to improve distribution, for instance, on plant-based yogurt across channel, that type of initiative.

The second priority was to continue addressing the plans to fix current issues, as we shared in May; the third one was really to make sure we continued to build the portfolio, matching evolving consumer preferences, and it's what Emmanuel went through. And also, accelerate our plant-based innovation momentum to drive white space expansion. Recent innovations are performing well like the new large sized almond milks, VEGA single serve beverage or VEGA's protein bars, just to name a few.

Finally, we have properly started our synergy roadmap, including the close of WhiteWave corporate headquarter, and we have grounded the plane, so we are well on track on this path.

As a result of all the above, in H2, we expect growth to accelerate to positive and margin to improve.

Moving to EDP International, Page 21, at minus 1.8% growth in Q2. Overall, we progressed over the quarter on adjusting the plans in former Dairy Europe, finalizing the setup of the organization, including the reduced number of clusters. We have also continued to adapt our execution plans on Activia to put in place the right conditions for improvement. In Brazil, the performance has continued to be very tough, double-digit negative in a context of deteriorated consumer conditions. Since, we are fully reviewing the portfolio format and price positioning, as well as the road to market to work towards a sustainable turnaround.

In parallel, our growth performance has been solid this quarter in CIS and Mexico. We also sustained Alpro's growth momentum, which generated another quarter of double-digit growth by increasing penetration, through awareness building, shop floor activation and innovation. Overall, the penetration increased over the last year in all countries, and we expect this momentum to continue for the rest of the year. Finally, as Emmanuel said, we have continued to accelerate our portfolio of young and local Dairy brands. These new growth engines such as Les deux vaches in France, Danio in Benelux, Light & Free in the U.K., have grown by more than 10% in Q2.

Going to the margin evolution in H1. We have been able to mitigate around 70% of the inflation through continued portfolio valorisation, acceleration of our operational efficiencies and cost optimization. In addition, margin has resulted from our disciplined pace to support growth. First, as part of our efficiency agenda and resource allocation process, we have rephased our investment behind Activia in H1 because we were in the process of implementing the plans. And this investment should accelerate in H2. And second, there was a high investment base last year given the relaunch of Actimel and Danonino that has contributed to mitigate the margin. We will continue to ensure that we accelerate and maximize efficiencies, while being disciplined in allocating our resources to move towards a sustainable stabilization.

In Q2, we have focused on implementing the plans to sequentially improve performance. In H2, we expect the growth of EDP International to be slightly negative and with an improvement versus H1.

Moving to Specialized Nutrition. Specialized Nutrition posted a strong growth at 5.5% in Q2. This reflects a strong momentum, supported by solid fundamentals on both Early Life Nutrition and Advanced Medical categories. On Early Life Nutrition, the growth has accelerated to mid-single digit, supported by a resuming of the growth of the Chinese market; second, a significant progress in developing our direct model, which grew by a very strong double-digit growth; and third, the positive inflection from a very low base last year on the indirect platform after declining for several consecutive quarters. We continue to be very cautious on this part and expect that volatility will last quarter-after-quarter until the full implementation of the new regulation in 2018.

In parallel and outside China, we continue to invest on new markets, such as the organic business in the U.S. with the Happy Family brand, which grew by more than 10%, outperforming the category. And we have continued to invest behind our General Nutrition segment. On Advanced Medical Nutrition, we have delivered a mid-single digit growth, with again, a strong underlying performance on all regions and all segments.

If we move to margin, it improved very significantly by 320 basis points in H1 2017. It's driven by both a structural, as well as for Early Life Nutrition, a one-off element. On the structural part, Specialized Nutrition continued to display a strong profitable and sustainable growth model, which is supported by gross margin improvement, as well as an active management of investment to support growth at the right pace. The investment will accelerate in H2. The H1 margin also includes a positive one-off element for Early Life Nutrition, which is the payment of the last part of the insurance in connection with the fire that we had in our Cujik plant in the Netherlands in 2015. I know that you have some questions on the magnitude of this impact, so for the Specialized Nutrition, margin improvement, it's around 1/3 of the full margin improvement.

For the full year, we continue to expect growth to be strong for Specialized Nutrition, with still some volatility from one quarter to another related to the Early Life Nutrition indirect platform in China. And we expect Specialized Nutrition to deliver a solid margin improvement for the full year with an unbalanced profile between H1 and H2.

Moving to Waters on Page 23. So the growth was 0.3% in Q2. It reflects 2 dynamics. The first one is unexpected negative performance in China. This is the last phase of the transition, and we are preparing the post transition through the high summer season. The performance has been impacted by a high base of comparison due to last year's loading. If you remember, last year, there was a loading before the high season, high season that turned out to be disappointed. So this year, we have taken a much more cautious approach in loading for the season. We expect an improvement in Q3, with the relevant level of inventory of Mizone.

Second, outside China, a solid mid-single digit growth. This performance is the result of strong plans of innovation and brand activation across our regional platforms on both plain and aquadrinks. Aquadrinks posted for the first semester a high single-digit growth outside of China. In Europe, the growth has been around 5%, supported by a positive performance in most of the countries, with especially U.K., around -- more than 5%, and Spain that was at double-digit.

In Latin America, Mexico has posted a record high sales growth at high single digit, within a very strong category. It has gained market share. Lastly, in the U.S., we continue to successfully expand evian, with a double-digit growth this quarter from a high-value portfolio and the successful distribution expansion strategy which is focused on large store and on selected cities.

Moving to margin, it has improved by 37 basis points despite the negative mix of China.

Looking forward for the Water category, we expect a solid full year of growth, with an H2 acceleration that will be supported by an improvement of China, along with favorable basis of comparison.

Let me know go through the other performance metrics.

Starting with the margin bridge on Page 25. Danone has delivered a very strong increase in recurring operating margin of 81 basis points on a reported basis, including the minus 21 basis points diluted impact of the consolidation of WhiteWave.

If we go through the bridge, we have a scope impact that is positive at 26 basis points, which is mainly due to the results of the merger of Dumex and Yashili in China last year. It is as well the results of the sale of our dairy operation in Colombia and Chile. And this illustrates that we continue to be mindful on capital efficiency and allocation.

Currencies had a negative impact of 16 basis points, mainly reflecting a country mix effect.

And if we turn now to the like-for-like new Danone margin improvement. Danone has generated a very strong increase of 91 basis points. We have been able to mitigate around 90% of the negative impact from inflation through continued portfolio valorization and efficiency gains on raw materials that are still in process, but also on our industrial operations and supply chain.

In addition, margin has also improved as a result of our discipline in pacing the support behind growth. As part of our renewed allocation process, we are reviewing our plans regularly to make sure that we are fueling the growth appropriately and at the right rhythm, quarter after quarter. This is, for example, what I explained on rephasing the investment behind Activia this semester.

Lastly, let me give you some clarity on the positive valuation of the "Overheads & Other" part of the bridge. As I commented earlier, it includes the last portion of the insurance payment in connection with the fire occurring in 2015. This represents around 30 basis points. And more importantly, it includes the first 10 million of synergies from WhiteWave. I am very pleased with the way that teams are moving forward in executing this part of the agenda, which bodes well for our capacity to deliver behind the synergies' objective, including for this year, at least 30 million. I would also like to mention that, again, we are well on track to implement Protein, having started the pilots, and we are preparing the full rollout for 2018.

Moving to EPS on Page 27. The H1 2017 EPS -- recurring EPS is at EUR 1.69, increasing by 11% at constant exchange rate.

Going through the bridge from left to right, the main elements are: first, the base effects related to the consolidation of WhiteWave, which represent 5.1%; the contribution from our profitable growth model, including this semester, as expected, a low growth and a very strong margin improvement, contributing 7.3% to the EPS growth; the negative impact of financial costs now, which are related to the financing of WhiteWave; and a negative impact from tax and reserve, mainly driven by a decrease of associate results in H1, after which -- part of which, sorry, being from phasing element.

The reported EPS includes, as well, a positive scope impact of 0.6%, which is mainly related to the deconsolidation of Dumex, Colombia and Chile. This effect will somehow fade away in H2, as we will include a slight negative impact from the sale of Stonyfield.

Overall, what this bridge tells us is that we continue to make sure that we deliver a consistent EPS growth through the right combination of sales and margin, being very mindful on having the right investment rhythm behind our growth.

Moving on cash, which is very top of the agenda.

We generated EUR 923 million of free cash, a very strong increase of 24.4% versus last year, including some positive effect from WhiteWave consolidation. But more importantly, if we look at the underlying drivers, in H1, we spent 3% of our sales in CapEx. And we continued to expect for the full year the rhythm of 4% to 5% of CapEx on sales.

And if we look at working capital, we are at minus 5% on net sales this semester, but we are actually improving versus last year if we exclude a WhiteWave impact on working capital levels. We see clear opportunities to improve WhiteWave working capital levels the same way we did in the past with both Numico and Unimilk. As part of our commitment to continue to build a high single-digit negative working capital level on sales.

Moving Page 30, this is the change in net debt. It's really related to one event, which was the realization of the transaction of WhiteWave, which has increased the debt significantly. As a result, we have a net debt-to-EBITDA that is more than 4x. We are fully committed on our deleverage agenda, including the commitment we took on some milestone with the agencies and with you for our 2020 metrics.

Moving to Page 31. So this set of results enable me to confirm our full year guidance of double-digit recurring EPS growth at constant exchange rate. It will include the base effect of the consolidation of WhiteWave for 9 months, the delivery of our profitable growth model, including a moderate sales growth for the year, but with an acceleration in H2 from a low start in H1, a sustained recurring operating margin improvement for the full year, with an unbalanced profile between H1 and H2, given the expected acceleration of investment in H2 as well as the one-off insurance payment that occurred in H1. As a result, I am fully confident with the delivery of our full year guidance. As I explained, this will be about continuing to manage the right combination of sales and margin and pacing appropriately our fuel for growth. We are fully focused and committed behind our delivery agenda. We will continue to make sure that we manage efficiencies, risk and opportunities, and resource allocation in a disciplined manner to guarantee our EPS commitment.

And while we do that, on Page 32, while we are securing this short-term delivery agenda, we are also moving on our decoupling agenda, making sure that we appropriately prepare and fund our midterm and long-term journey, including moving safely to deliver our 2020 metrics objective. This is and will be the permanent balance in managing the 3 time horizon, the rhythm of growth and efficiency, and the pace of investment that will drive a sustainable performance and value creation for all stakeholders. At the end, it's really about balancing properly our delivery and transformation journey.

And with that, I am finished, and hand it over to you for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We now take our first question from Warren Ackerman from Societe Generale.

Warren Lester Ackerman - *Societe Generale Cross Asset Research - MD, Head of Global Staples Research and Equity Analyst*

Warren Ackerman here at SocGen. I've got 2 questions and one housekeeping. The first question is for Emmanuel and Cecile. You said a few times on the call that growth will accelerate in H2. And I think you said that evian, the topline renaissance will start from Q3. Could you quantify your expectations on growth in H2? And maybe reconfirm your commitment from the evian CMD that DanoneWave or EDP Noram, as you call it, will be back to, kind of, mid-single digit growth, which is what I think you said at evian? That's the first question. And then the second question is just on China baby. It's nice to see an improvement in Q2. You said the market is back into growth. Are you able to tell us now how big C2C is, or how much smaller it's getting, and how big B2C is? And what the relative growth rates of C2C and B2C e-com is in China? And your expectation on China for the second half, you said a volatility into the new regs in January '18. Maybe if you can kind of just flesh out what you expect to see in the back half. And then, finally, just a housekeeping one for Cecile. Your other operating income and expenses went from a plus EUR 21 million in H1 '16 to a minus EUR 134 million in H1 '17, and I know it's below the recurring margin. But can you explain what that -- what drove that? And what you would expect from that line in the second half?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

So I'll go from last to first, if I can. On other income and expenses, it's 3 things. The first is all the expenses related to the acquisition of WhiteWave - fees and others. The second is some restructuring cost, especially looking at the finalization of our organization in Europe, moving to focus from 9, and the starting cost for integration of WhiteWave that will support the strong delivery of synergy plan that we have put forward. So this is what we have. There will continue to be the same kind of magnitude in the second half as we continue to foster for implementing the synergies on WhiteWave. On China, so we went between indirect and direct. Remember, we had last year around a 60-40 kind of a weight. We are expecting that by the end of the year, it will be closer to 50-50, so we are in the middle of that. We are cautious, because, as I said, there is volatility, and it's a part of the channel that we are not fully controlling. So we are being very mindful that we continue to accelerate the direct platform, and that's really where we are monitoring. So for me, the 2 things that you need to retain on the Chinese goals is, first, the demand has restarted. You remember that last year, there was no growth, and we have now a solid demand and growth for the market, which is really what is fundamentally measuring the health of the growth. And second, we have on the direct path, a strong double-digit growth on both specialized and e-commerce, and we are gaining market share. So this is really what we need to have in mind. There could be still volatility, so I will not give you a very precise number going forward until the regulation is fully in place. To answer your question on the regulation in January, it will really depend on what are the decisions and the implementations that are being put in place. So I cannot tell you for sure that this will end in January. There are still some unclarity on the way they will effectively implement that, but we are monitoring that very closely so that we are securing the delivery agenda and contract that we have with you. Then in term of H2 acceleration, it's a sum of several things, and I will go probably category by category. On Waters, it's what we described, meaning that we said from the beginning that the growth in water will be unbalanced between H1 and H2, with an acceleration in H2 that will lead to a solid growth for the full year, so that is for Water. On Specialized Nutrition, we have seen an acceleration that will continue for H2, so we continue to expect the strong performance around mid-single digit in H2. And then, when it comes to EDP Noram, we are -- we have really gone through a quarter of onboarding. The sales force is now fully in place. And we'll start implementing all the initiatives and cost initiatives that we went through. There is a strong innovation pipeline, so growth will return back positive in H2, and that's really the agenda that we have. And then, finally, on EDP International, we've been very careful not to guide very precisely on the quarter because we want to make sure that we are not pushing for a short-term turnaround at any cost, but that we are really building the turnaround in a safe manner. We shared with you many times that given Activia turnaround, it will take more time, so we are taking the time to do it, but we should expect an improvement in H2. So overall, when we say a moderate growth, I went through that I think already when we guided in the first time because it's the same guidance. I will not want to put a very precise number because I want again to make sure that we properly pace the growth and the efficiencies and the rhythm of investment to make sure that it's a sustainable delivery of growth acceleration. So it will be moderate, and there will be an acceleration with all the elements I just went through.

Operator

We will now take our next question from Jeremy Fialko from Redburn.

Jeremy Fialko - *Redburn (Europe) Limited, Research Division - Partner of Food Manufacturing and HPC Research*

It's Jeremy Fialko at Redburn. I have 2 questions. So the first one is, obviously, you've closed your Denver headquarters of WhiteWave. So can you just give us some sort of indication as to the degree of like staff churn or new recruitment that you've needed to go through at WhiteWave since you've closed the deal in April? A second question is just on your Russian dairy business, if you can talk a little bit more about how you see that evolving in the second half, particularly as milk inflation there comes down.

Emmanuel Faber - *Danone - Vice Chairman & CEO*

Jeremy, thanks for the question. It's Emmanuel. When we're talking about the Denver headquarter, we are really talking about the corporate headquarter of WhiteWave, which is the office they had downtown Denver, with all the functions related to the fact that WhiteWave operated as an independent company. Their operational business headquarter is in Bloomfield, a few miles away from that, close to Boulder, which is actually a very interesting area when it comes to food tech. The -- so the closure is one that does not need much attention to be paid to a continuity of operations because all the work that was done in this headquarter is now -- when it continues to be relevant, it is now supported by the One Danone organization for North America that is in place, our business service organization, as we have in 30 other locations in the world. So the continuity is there, and there had not been any talent issue. Now just one more point is about the Bloomfield operations, just to say that we see Denver, Colorado as an attractive place, in particular for the younger generation. The quality of life in Denver, as you may know, it's the fastest-growing city in the U.S. It's an attractive area. Boulder is a very lively environment when it comes to food incubators, startups and the Alimentation Revolution. So we see a lot of complementarity with our own White Plains, New York headquarters there. For Russia, we continue to see growth in Russia. It's a mix of volume, but essentially pricing and value. It's -- I would say, to your comment about inflation, by the way, that you'll remember Cecile and I have been adamant about the fact that our assumption long term is that there will be milk inflation and raw materials inflation overall, agricultural commodities. We knew it was going to happen in 2017. It has happened in many ways. The speed at which it's happening is now probably slowing down a little bit. And we probably see less inflation in the next 18 months than we initially anticipated on the milk side. Although I'll be only very qualitative at this stage because it really depends on a country to country basis.

Operator

Our next question comes from James Edwards Jones from RBC.

James Edwardes Jones - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

It seems the entire margin growth was down to lower marketing, which I think was 62 basis points, and the insurance claim in Specialized Nutrition which I think at a group level works out around 30 basis points from what you said. Is it really fair to comment that this bodes well for the year? It actually feels relatively low quality and one-off.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Well, I would disagree with that, as you can imagine. first, there has been a strong inflation, as we said, it will happen this year. And we have been able to mitigate 90% of it through portfolio valorization, through efficiencies, throughout the supply chain and the way we are sourcing materials. So I think this is a very qualitative mitigation of inflation in our cost. Second, in term of A&P, you can say it's a cut in marketing. Overall, we've been very clear now for one year that we had put in place a new resource allocation process, where we were really disciplined in order to make sure that we would appropriately and with the right pace invest behind the support of our growth. And also, being very careful not to push for tactical short-term growth, which could be an option, but really make sure that we are delivering a sustainable profitable growth model. And to that extent, you will remember very well that the results for the Activia relaunch was not as expected, so there was no reason to keep the plans in H1 until the different correction measures were implemented. So we have decided to rephase it. On top of that, if you remember, last year in H1, there was investment for the relaunch of Danonino and Actimel, so there was a part of it which is a base of comparison. And then in each category, we've done the same work. So in Early Life Nutrition, investment will accelerate in H2. But for me, it's rather a sign of a very disciplined delivery of margin in an environment of low growth than the way you described it. And then, yes, there has been a one-off element, but it was anticipated. It came in H1. It could have come in H2, but it was anticipated in the construction and the guidance. And this is linked to negative elements that we had incurred as costs when we had the fire. So overall, I would say, it's a very solid delivery of margin improvement.

Emmanuel Faber - *Danone - Vice Chairman & CEO*

And if I may add to that. I think -- and I understand this is not making your work easy here. But A&P is a mix of a lot of components. And the cost of GRP is evolving as we continue to negotiate with TV channels in particular and other media. The fact that we're going through Protein will probably mean that we are able to be more efficient than we are today. The cost of going digital is, for the successful digital campaign, is actually very different from a traditional TV advertising. And as Cecile said, we really look at quarterly allocation. Another example of what happened last year and which we shared with you was: in the Q2 that we had this very successful Oikos Triple Zero opportunity around the NFL, and we decided to heavily invest more in it, in the success and building the success of Oikos Triple Zero which remains a very solid growth driver for Danone in the U.S. today, and that's also in the basis of comparison. So I think the fact that we are saying we're decoupling efficiency in growth is really the way you need to look at it when we then commit to deliver a consistent EPS growth at the end of the day -- just to be able to have the freedom of allocating resources as we believe is the best for building a solid and recurring growth momentum for our brands.

James Edwardes Jones - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

That's very interesting, Emmanuel. So not just you, but Reckitt, Unilever, Nestle, Diageo have all reported lower marketing as a percentage of sales. Do you feel that the industry or at least the sort of industry incumbents are heading towards an era of lower marketing spend?

Emmanuel Faber - *Danone - Vice Chairman & CEO*

No, I don't think so. It really depends on the categories where they are, if you -- how mature the categories are, what the geographies are. I really think that you need to have a deeper look overall. But I think the efficiency of advertising is something that most of the large companies are currently looking at, we are. And I think there are still a lot to gain in terms of efficiency, no doubt on that.

Operator

(Operator Instructions) We take our next question from Jon Cox from Kepler Cheuvreux.

Jon Cox - *Kepler Cheuvreux, Research Division - Head of Swiss Equities and Head of European Consumer Equities*

Jon Cox, Kepler Cheuvreux. Just on the free cash flow as the first question. You came in EUR 200 million better than expectations. I'm just wondering, any reason why we shouldn't just put EUR 200 million more onto that consensus figure you've put around, which I think is about EUR 1.8 billion for the year? Should we really just be adding EUR 200 million to that for the full year? Or are there any sort of negatives that could mean that some of that one-off or, sorry, the EUR 200 million beat as it were for free cash flow unwinds in the second half of the year? That's the first question. A second question, actually, just coming back to what James was talking about on the A&P spend. Can you just tell us how many basis points were saved year-on-year with lower A&P? And how much of that will unwind, as you say, maybe spend more in the second half of the year?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

So on your first question of cash flow. The first element, why you cannot just add the EUR 200 million is that there will be a rebalancing in CapEx spend, because we spent 3% in H1 and we will go for full year between 4% and 5%. So that's one of the elements. Then on investment and A&P, there are several topics. The first one is to make sure we keep the right flexibility in choosing the rhythm and the appropriate level, depending on where we are in our cycle of rules in different countries. So I would not like to be precise on an expected number, because that would mean I am losing this flexibility, and I'm losing the fact that I want to manage my model in an efficient manner. Second, of course, when we will fully implement the Protein from 2018, that will have some impacts on efficiencies overall on the marketing spend category. We have already said that some of it will come into margin, from the total Protein saving EUR 100 million a year from '18, and EUR 700 million will be reinvested. EUR 700 million, they will be reinvested. They could be reinvested in formula, in packaging. They could be reinvested in A&P to support certain initiatives on growth. This will really be decided as we unfold the proper growth and initiatives.

Jon Cox - *Kepler Cheuvreux, Research Division - Head of Swiss Equities and Head of European Consumer Equities*

Just to follow-up. So the marketing spend in H1 versus H1 a year ago, was it, say, 50 basis points lower, did you say?

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

I didn't say that. What I said in the investment bridge is that the investment in total contributed to 60 basis points. Most of it would be A&P. So you do your math.

Operator

Ladies and gentlemen, just to confirm that there are now no further questions in the queue, so that will conclude today's question-and-answer session. I would now like to turn -- actually, I have a further question queued. Would you like to take it at this point?

Nadia Ben Salem-Nicolas - *Danone - VP Investor Relations*

No, I think we are going to stop, it's a very busy day now. So thank you very much, and we'll have calls to follow-up later. Thank you very much.

Emmanuel Faber - *Danone - Vice Chairman & CEO*

Goodbye, everyone.

Cecile Cabanis - *Danone - CFO and EVP of Strategy & Information Systems*

Goodbye, everyone, bye-bye. Goodbye, good luck for your day.

Operator

Thank you. Ladies and gentlemen, just to advise that, that now concludes today's conference call. Thank you for your participation. You may now disconnect.

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