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OVERVIEW:

Co. reported 2017 sales growth of 2.5% and recurring EPS of EUR3.49. 4Q17 reported sales growth (including base effect of 17.7% deriving from first year of WhiteWave consolidation) was 13.8%.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, and welcome to the Danone 2017 Full Year's Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Nadia Ben Salem-Nicolas. Please go ahead.

Nadia Ben Salem-Nicolas - *VP Investor Relations*

Good morning, everyone, from sunny Paris. It's Nadia Ben Salem-Nicolas speaking, Head of IR team of Danone. Welcome to Danone's Full Year Results 2017 Webcast. I'm here with Emmanuel Faber, Chairman and CEO; and Cécile Cabanis, CFO.

Before we go through the presentation, I would like you to go through our usual disclaimer on Page 2.

And with that, I hand it over to Emmanuel.

Emmanuel Faber - *Danone - Chairman & CEO*

Thank you, Nadia. Good morning, everyone. Thanks very much for joining us for this call. I'm thrilled to comment this morning what I think is a very solid set of results. And even more importantly for me is closing a year which has been both a year of full delivery of our objectives and commitments, including to you, and preparation for 2018 as a good year on the roadmap to our 2020 objectives.

So if you turn with me in Page 4. This is basically the landscape in which we are working on developing our business. Our ambition is to be leading the way to create and to share sustainable value. You've heard us plant the One Planet One Health vision in June last year, which really embraces the food revolution that's sweeping the category in many ways, and that we see as an opportunity, and we don't want to be the incumbents on that side of things.

The result on this page is that we are developing what I think is today the healthiest of all food portfolio of large companies around the world, which we manage in one of the most responsible manners to our consumers, employees, suppliers, customers and to yourselves and creating, therefore, a sustainable circle of value creation over time.

Turning to 2017, specifically on Page 5. Our guidance for the year was upgraded to above 12% in the course of last year in terms of recurring EPS at constant ForEx, and we ended up with a number of 14%, which is, therefore, a good match to that commitment.

Page 6, you can see on the organic sales numbers that the confidence that you heard Cécile and myself share with you in the first part of the year, which, as you know, has been a slow start on the acceleration. This confidence was well placed. We are closing the second half of the year at 4%, which blends into a total year of 2.5% growth rates. Very strong operating margin, and Cécile will expand on why and how we did that.

Extremely solid free cash flow generation, 18% growth, overpassing the EUR 2 billion mark that we'd set for ourselves.

Page 7 is another important set of metrics of the year as well because, as I earlier said, I think sustainability means we need to deliver on many more metrics. The close to 90% number that you see here of our portfolio of products deemed nutritionally to be consumed on a daily basis is an important metric for us in terms of the sustainability of what we do every day in this world.

The 10% reduction of carbon intensity for Danone on a 2-year basis with our starting point of 2015 is very promising for us, too. You all know how much carbon footprint reduction is also linked to value creation, efficiency and resources, cost management, et cetera. But most importantly for us, we are the only company that measures that against the full scope, so not only our direct scope, but that includes agriculture, which is roughly 60% of the total emissions of the Danone system.

By the way, on this, starting this year, 20% of our LTIs as management will be related to the ability of Danone to stay at the leadership level, the A minus, that you see here, which is measured by the Carbon Disclosure Project of the UN as such. And this is to ensure consistency over time.

And finally, we've this year delivered the accreditation of 5 of our companies as B Corps, as you can see on Page 8. Turning to Page 8. We are walking the path towards our certification roadmap. We see DanoneWave in the U.S. already a public benefit corporation, well on track to get certified in 2018 as a B Corp. And Cécile and the team have restructured our syndicated credit loan in a very innovative way, including ESG and actually B Corp agenda as drivers of lowering the cost of that debt for us if we achieve certain ESG and B Corp criteria. So this is really embedding sustainability into the financial performance of Danone.

Turning to Page 9 is a list of the big enabling priorities that you know, for us reaching our targets for 2020. I was saying that 2017 has been a year of delivery and preparation. So let me turn maybe directly to growth on Page 11. This is a small part of the slate of products that we've put on the market over the last 12 months. None of these products existed before. There is, with the Growth and Innovation function that we created a year ago, an acceleration in our ability to deliver on new paradigm of the food revolution kind of products in many ways, so I'll let you go into more details. I can answer question, if you want, but I felt that this visual is basically bringing it to more reality to us.

Turning to Page 12. And in the same vein, you remember this bet that we made in the U.S. of going for non-GMO pledge for half of our total volume and a number of our biggest brands. So the first one on which we've actually reached the non-GMO total certification is Danimals, which is the leading kids' brand in the U.S. in dairy. You can see how the market share in 2017 has evolved, a very strong increase in the market share as a result of the non-GMO certification of Danimals. And in a category that has continued to decline, we've enjoyed close to double-digit growth of that brand with the 2 largest other competitors strongly declining in market share. So this is the first reward of that pledge, and there will be more coming. Also an element of consistency between business sustainability and financial performance.

Page 13, talking briefly about China, and Cécile will comment significantly more about it. I'm very pleased about the Chinese performance for the year, and obviously, for the back end of the year as well. We've worked strategically on positioning our 2 largest international brands, Aptamil and Nutrilon, in a complementary way, that's playing well in Chinese parents' mindsets and need states. It's a case where we've driven the global image and the global positioning of these brands according to the impact that it could have in China, given how important, as you know, China is as a market for baby food and, in particular, for us with our brands that are leading in that country.

More on Page 14 about an important topic on another division, which is Waters, where I'm pleased with a number of initiatives that were taken by our brands, evian, Lanjaron, Villavicencio, but I could name Bonafont and others, about tackling the big topic of recycled -- recycling and plastics. We see this not only as a license to operate, but also growingly as the consumers' choice. And we announced in Davos that evian would be beyond being 0 carbon in 2020, by '25, would be fully positive in plastic, meaning using entirely recycled plastics for its business system.

Page 15, also in terms of strategic platform for growth, we've accelerated on digital in 2 ways. One was really driving growth, and that's the case for our Lazada and Alibaba, Lazada in the ASEAN countries and Alibaba in China, reinforced partnerships, as well as a growing presence in the drive and e-commerce of more classical retailers. But of course, I could point Amazon, on which we've doubled down in terms of commercial activity after the WhiteWave acquisition and reviewing all opportunities with them to do more in particular in North America.

And the second part on the bottom part of that chart is also that digital is driving our costs down in terms of communication, marketing costs overall, but also supply chain gradually as we move forward. And so this is also a page that's describing why I'm confident in the fact that what we did in '17 is also creating part of the future.

This is very much true as well as of Page 16. I'm pleased to report that our Danone Manifesto Ventures Incubator based in the U.S. has been very active last year. You can see a number of investments, 5 in total. And that's been updated by our latest addition to the portfolio with Harmless Harvest, which is an organic coconut high-pressure business in the U.S., very interesting brand and business model. We've been leading their last round of financing, getting closer to us, and many synergies with the rest of our North American business and corporation that can happen there.

So this is about growth and the initiatives that are behind the numbers that you've seen for 2017 and going forward, '18.

Turning to efficiencies now, and starting with Page 18. As you know, a couple of significant new kinds of culturally disrupting initiatives for Danone. A significant commitment of synergies for WhiteWave, nothing new here. Confirmation in '17 that we overdelivered on the objective that we had with about $50 million of synergies on a limited amount of months given the delayed closing of WhiteWave last year.

We stick to our 2020 objective of $300 million of synergies on a run rate basis. And this year, our objective is that we will capture 60% of those run rate synergies through a number of additional activities that have started and that will pay off and that will continue to be working for the whole year this year. So very important year in '17 to kick off successfully the synergy program, and lots of things to happen in the year to come, so stay tuned with us on this.

The other very important efficiency agenda for Danone is, of course, our Protein program that we announced exactly 1 year ago at the full year of '16. So '17 has been a year where we've put the foundations in place. 10 of our 30 local clusters are activated on Protein. We've on-boarded the rest of the clusters already. All the playbooks in the 15 subcategories of SG&A, services and goods, spending are in place now, and we are confirming, obviously, our 2020 objective to be delivering EUR 1 billion of savings, EUR 300 million of them being into the margin and EUR 100 million of that already to be booked in the 2018 margin of Danone.

Last point of our enabling priorities for our business: being disciplined in the way we manage and we allocate capital. We spoke already a lot with you about our Beyond Budget process, the resource allocation that we're managing on a quarterly basis to ensure that we put our money where we really believe it makes sense for us, with flexibility, while the same applies to bigger investments.

We've been disposing or exiting a number of non-performing businesses around the world, small countries in which we didn't feel that we had a future with certainty enough for us to continue to spend and worth the effort for us. Half a dozen of countries and businesses around emerging countries essentially last year.

But most importantly, Page 21, and most recently as you've seen, we have decided to optimize the metrics of our partnership with Yakult, doubling down on some operational aspects of the partnership, maintaining the governance of it with our 2 seats on the board, but basically, reducing by 2/3 our shareholding. We will remain the largest shareholder of Yakult with our 7% stake at the end of a process which is still ongoing. So no certain closing at this stage. But we believe that, given the value that was at stake there, the overall valuation metrics where we started 20 -- or 15 years ago with the partnership, it was a very sensible way of reallocating our resources into the overall Danone business and ambition.

Let me finish by talking about the teams and the organization. An important step, a very important step was reached in 2017 with a streamlined organization.

Let's start on Page 23 with a renewed, balanced, diversified, more focused on the business expertise Board of Directors. I'm obviously proud and feel lots of responsibility to be now assuming the function of Chairman of that Board.

On Page 23, you can see the 3 proposed additions to the Board: Michel Landel, the former CEO of Sodexo. He is tremendously knowledgeable about the U.S., having been running their U.S. business for more than 10 years and incredibly successful in making what Sodexo is today. So Michel is proposed for the lead independent director at the next AGM.

Guido Barilla, who also had an incredible career path, having made Barilla just the highest-standard business I know in the pasta industry overall. Huge premiumization, valorization, innovation, in many ways making that business global. Huge success in the U.S., of course, reviving the category over there. Great sustainability, embedding in the brands transparency, long-term commitments with growers and upstream, Guido will bring a lot to that board.

And finally, my friend and colleague, Cécile, who's been with us for many years. As CFO, personally, I sat on the Board of Danone starting in 2002. My predecessors sat at the Board of Danone and have been sitting for a number of years. And as we've moved now into a post-transition period for Danone, we felt that the Board would be very reinforced by Cécile's presence. So Cécile, welcome, subject to our shareholders' approval on the April 26th AGM.

This Board will continue to be a very diverse board. 64% are independent, very important for me that we continue to be very strong on that independence level. 43% are women and a good chunk of us being non-French, not to add that some of us have dual nationalities, bringing even more to the diversity of that Board.

Turning to Page 24. The management model of Danone has also been reinforced, strengthened with a shorter COMEX, as you know, a team I'm very proud of, very diverse, which is focused, which has started to work fast and efficiently. And you can count on us to continue to really leverage the simplicity, the size, but also the diversity of that team for the best of the steering of this company.

I'm very pleased, on the second line of this chart, to confirm that our regional leadership global team is now also fully in place and working, making global decisions, informing the COMEX of local realities that we need to take into account because, as you know, the foundation is what you see in the dark blue line here: 30 local clusters, One Danone entities. I continue to believe that this sweeping food revolution happening is all about relocalization in many, many ways, whether this is consumption, agriculture, food styles, but also regulatory, politics, NGOs, and therefore, we absolutely need to capitalize on the specific Danone culture when it comes to being a multi-local business.

Let me nearly finish by also add, talking about organization on Page 25, that you can count on 100,000 very engaged people at Danone, behind everything else that I've said before. Our employees' engagement, measured by our bi-annual survey that we send to 100,000 people, 91,000 of them answered last year. The result of that is 86% of employees engagement, which is 4 points more than 2015, 8 points and increasing delta with all our large food competitors and even 1 point foray into the group of the highest performing companies around the world in terms of employee engagement. So there is a huge traction and energy behind everything that we do at Danone with a strong ownership of the agenda by the people of Danone.

Let me just briefly skip Page 26, but all of what I said is summarized in this page and why I'm confident that all the words that you see on this page are a reality, will be more of a reality turning into the strong profitable sustainable growth that we are aiming at.

And if I turn to Page 27, reinforcing my confidence, our confidence in our ability to meet the targets that we've shared with you at the Evian Investor Seminar last year, the 4% to 5% like-for-like sales growth, which I think 2017 and 2018 are going to be good platforms, launch pads for the re-acceleration. The recurring operating margin above 16%, it's step by step, but a steady agenda that we are running with. I think, if I look at the cumulative margin improvement since 2014 and this team is now in place, it's never been as much of a priority as it's been now in the history of Danone.

And in terms of capital allocation, you know we're committed to reaching a deleverage below 3x debt to EBITDA by 2020, and managing our ROIC constantly, going back to 12% or around 12% by then. All of this in the same time and during that period of delivery and transformation, with the strong safety line that we want to have with you of a consistent EPS growth during this period to come.

Again, I'm really pleased with how the back-end of the year is preparing the future. I'm pleased in how it all blended into our ability for the full year to meet the commitments that we had and the strategic objectives that we have set for ourselves.

And with that, I would like to turn to Cécile for a more detailed review of the year. Cécile, over to you.

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

Thank you, Emmanuel. Good morning, everyone. So I will now go into more details of the numbers, and I will start Page 29 with the guidance.

You'll remember that in 2014, we started the business transformation in order to strengthen our growth model to make sure that we would deliver consistency and sustainability in our results. We placed a significant focus on operating more efficiently, but remaining very agile and with a high degree of discipline.

So very happy that 2017 was another year of progress and delivery with a very strong recurring EPS growth at 14.2% at constant exchange rate, fully in line with our guidance.

Moving to the next page. This EPS delivery was supported by a solid set of financial metrics, as Emmanuel commented. It includes 2.5% sales growth with, as expected, an acceleration in the second part of the year, with a growth above 4% in the second half. We delivered a very strong improvement in the recurring operating margin despite a steep increase in input cost and slight negative volumes. This delivery has been supported by the mix of the growth, the valorization of the portfolio as well as greater efficiencies and continued discipline in resource allocation.

Finally, and consistent with our commitment on our phase of deleverage, we've delivered over EUR 2 billion free cash flow with a very strong 18.4% increase versus prior year.

And as you know, the recent announcement of our partial sale of our stake in Yakult, illustrates here again the discipline in capital allocation and the focus on our phase of deleverage. So we are fully executing the agenda and walking the talk.

Moving to the next page, all the performance that you've seen has been made in a still volatile environment, which included strong headwinds. So if you look at the chart from left to right, first and as anticipated, milk prices have increased overall by around 10%. We suffered the same pattern on crude oil prices, which increased in the second half more than 10%, negatively impacting the bill for plastic packaging. Then we continue to see a weakness in the British pound in a Brexit context, and that had a negative impact on our financial equation because, as you know, most of our businesses in the U.K. are built on a import model, especially on Waters and EDP.

Finally, volatility has remained in some of our key markets. This led to pressure in our Dairy Brazil business, and we had continued volatility in our Early Life Nutrition business in China from one quarter to the other.

3 years ago, when we met for the investor seminar, I said that volatility was here to stay, that it was going to be the norm and that it couldn't be an excuse for not delivering, and year-after-year, we've been delivering. We have to continue to remain agile and focused, and we need to continue to execute properly behind our strategic priorities which, as Emmanuel reminded, are about accelerating growth, maximizing efficiency and allocating capital with discipline. We are really focused to ensure that the resilience of our business model will create sustainable value. And happy to say that the delivery this year proves that despite this volatility and inflation, we were able to navigate and deliver our commitment, while continuing to prepare for our acceleration towards 2020. So let's go now into the details of the figures, starting with the sales on Page 33.

In Q4, on a reported basis, we posted 13.8% of sales growth, including in the bridge, from left to right, the base effect, 17.7% deriving from the first year of consolidation of WhiteWave. There has been a negative scope impact of minus 1.9%. This is mainly due to the sale of Stonyfield in August.

There has been, in Q4, an accelerated strong negative impact from currencies, minus 5.7%, mostly reflecting the appreciation of the euro against the American dollar and negative impact from the Indonesian rupiah and Turkish lira.

Moving to the like-for-like growth, where we posted a 3.7% growth, confirming the acceleration of our growth. This performance includes a negative minus 1.7% effect in volume, which is mainly driven by EDP International in Brazil and in CIS and a positive value effect of 5.4%, which shows positive impact from mix and portfolio valorization in all categories.

Let's now, maybe, go entity by entity, starting with Page 34, the overall picture on the performance of our reporting entities. In Q4, the growth rhythm, as I said, confirmed acceleration in all reporting entities. This included very strong growth in Specialized Nutrition and Waters with contributions from both volume and value. This also included great progresses in Essential Dairy and Plant-Based, with Noram flattish sales growth in Q4. EDP International also displayed a good pattern of improvement with again flattish sales in Q4, including strong negative volumes, which are coming mainly from Brazil and CIS. On the margin, I will comment in detail per reporting entity. But overall, the evolution is very positive, different from one entity to another, but reflects a lot of progress, especially on the efficiency agenda and valorization of our growth.

So let's go now entity by entity. I will start Page 35, Specialized Nutrition, where the full year growth has been at 9.3%. This growth is supported both by strong fundamentals behind our categories and by continued positive dynamics in China.

For the full year, Specialized Nutrition achieved a very significant margin increase, at almost 200 basis points. The margin closed at 23.73%. This increase has been driven by the growth through mix portfolio valorization, efficiency as well as discipline, and the positive one-off insurance reimbursement, which we discussed in the first half.

In 2018, we expect Specialized Nutrition growth to continue to be solid around mid-single-digit for the full year. China will continue to drive volatility in the growth profile of Early Life Nutrition from one quarter to another, including a sequential normalization of the market demand in China in IMF, as births have come down in 2017.

Maybe, Page 36, a few words on the underlying drivers explaining the performance in Q4 for both Early Life Nutrition and Advanced Medical Nutrition. So the first one, for Early Life Nutrition, has been China, which remains the main growth driver acceleration engine, with China growing more than 30% in Q4. It confirmed the rebound in demand linked to the H2 2016 birth peak as well as strong traction from our brands, both Aptamil and Nutrilon, and where we gained in market share across all direct distribution channels. It's the result of successful execution of our plans behind both innovation and activation. China growth in Q4 was driven by continuous acceleration in all our direct sales, while indirect sales continued to grow, but to a much lesser extent than in Q3.

Overall, coming back to our strategic agenda, 80% of the Q4 incremental growth came from the direct channels.

In other markets, we had a performance in Europe that was stable. And we had both LatAm and CIS that posted double-digit growth. We continue also to make great progresses behind our strategic agenda around Tailored Nutrition with a strong growth across markets.

On Advanced Medical Nutrition, there was another quarter of mid- to high single-digit growth, driven by all segments, both adult and pediatric care, and all regions. While China remained, here as well, a strong growth driver, contributors also included very robust markets in Europe and in the rest of the world.

Moving to Essential Dairy and Plant-Based on Page 37. I will start with North America. EDP Noram posted a negative 2% growth for the full year, including a gradual improvement throughout the year with a Q4 growth nearly flat. And this improved from a rhythm of minus 2.6% for the previous 9 months. This has been primarily driven by a steep recovery in sales of plant-based products, which partially offset the negative performance of Premium Dairy and Fresh Foods.

If we look at margin, after a negative margin evolution in H1, the margin evolution was positive in H2. This is thanks to the strong delivery of cost synergies that came at a higher pace than we planned originally. For the full year, synergies delivered more than $50 million cost savings, enabling to fully mitigate the headwinds and deliver at the end of the year a stable margin.

In 2018, we expect the growth to continue to gradually improve, confirming recovery of plant-based, continued momentum on coffee creamers and resilience of our yogurt business, which will be supported for all categories by a strong innovation pipeline. We expect a first half performance broadly in line with Q4 2017. And on the efficiency agenda, we will focus on delivering the second year of the synergies from the combination in North America.

A few words here as well, Page 38, on the drivers to go through each category of EDP Noram. First, on U.S. retail yogurt, we continue to display resilience in Q4, closing the year around flat versus previous year. The category was still negative in Q4, but Danone continued to increase its market share, now more than 33% on a full year basis. It was driven by brands like Danimals, Emmanuel commented on it, by the continued ramp-up of innovation such as the Activia lactose-free and the first shipments in organic yogurt for kids from our Happy Family brand. The yogurt performance is also well supported by a double-digit growth in plant-based yogurt coming from the WhiteWave portfolio.

If we move to plant-based food and beverages, which delivered a meaningful improvement in growth, showing that the execution of the turnaround of Silk's plant-based beverage is being successful. The category continues to be very dynamic, driven by nut-based growing double-digit. Q4 results were also driven by a double-digit sales performance of Vega nutritional products, So Delicious frozen dessert and novelties. And overall, Danone continues to be the leader across all plant-based categories where it plays.

Moving to coffee creamers, another robust quarter of growth in Q4. Danone continues to outpace the category, increasing its market share, driven by strong plans and innovation pipeline.

With strong negative growth, Premium Dairy has continued to be severely impacted by the industry's oversupply of organic milk, the whole category declined in 2017. As you know, because we commented it already last quarter, there is a very meaningful impact, and abnormally high, between organic and conventional milk. Danone lost some market share, while still being the leader of the market with 40% plus share. We are increasing utilization of organic milk by launching innovation around differentiated milk, such as a grass-fed product line especially.

Finally, Fresh Foods registered still a negative performance in Q4. However, Earthbound is still the branded organic solid category leader with 13% market share in a category that started to recover in Q4.

Moving to EDP International on Page 39. So EDP International posted a negative 1.3% growth for the full year. But here as well, including a sequential improvement, with a Q4 nearly flat at minus 0.3% from a rate at minus 1.6% for the previous 9 months. If we exclude Brazil, EDP International keeps being positive as it was the case in Q3. This performance reflects a solid sequential improvement in most countries, while Brazil business continues to be impacted by a very tough backdrop.

In terms of margin, thanks to the major progresses on the efficiency agenda overall and despite negative volume development and strong rise in input costs, we've been able to mitigate most of the impacts through continued portfolio optimization, greater efficiencies and discipline. Situation varies from one country to another. There has been some margin pressure in countries like France, given pressure in prices from retailer. And overall, margin has been impacted by Brazil performance. Removing Brazil, margin evolution is positive.

For 2018, we expect EDP International growth to confirm stabilization, including the continued sequential improvement of Europe, while Brazil is likely to continue to be sluggish while we are implementing the turnaround plan. We will continue to reinforce and optimize the model, leveraging the first year of Protein delivery to progress safely and efficiently on our agenda.

Moving to the drivers of performance per region, Page 40. In Europe, sales continue to improve overall quarter-after-quarter, in line with our expectation, with an improvement rate that is different from one country to another. It's mainly around 4 drivers. The first is Activia. Activia registers a clear progress, driven by our biggest countries such as France, Iberia, U.K., and supported by all the adjustments that we shared with you and that we made in terms of packaging, advertising and innovation.

In parallel, the relaunch of Danone's brand in Spain and France generated some improvement in the Danone brand sales performance, particularly in France.

Third, we discussed every quarter around young and local heritage brands that continue to be a strong driver of growth for EDP International.

And finally, Alpro, that continued to deliver a strong broad base of growth in Q4 at high single digit, supported by initiatives, aimed at building penetration, including innovation, brand awareness and shopfloor activation.

Moving to Latin America. The overall performance continues to be driven by strong momentum in Mexico, while Brazil continued to be under pressure with a double-digit decline. In Mexico, growth momentum benefited also from the full integration of WhiteWave on a quarterly basis, especially of Silk, within our direct distribution network as well as a strong improvement from Danonino with the success of the launch of a new pouch last May with reduced sugar content.

As I said, Brazil continues to face strong headwinds. There's not much change since Q3. And turnaround, including adjustments overall in the business model, is being implemented. And as we said last time, this will take time, so we don't expect major improvement for 2018.

Finally, CIS, another quarter of solid growth, driven by overall market growth and a large innovation pipeline. The performance there was based on a consistent mix improvement with growth on modern dairy and high-value brands, such as Actimel, Prostokvashino or Activia. There was still some slowdown on milk and low-value brand, which impacted the volume development negatively.

Moving finally to Waters on Page 41. Waters generated a very strong performance with growth at 10.3% in Q4 from a 3% growth in the previous 9 months. With both plain waters and aquadrinks in all regions contributing to growth and including the confirmed end of transition period for Mizone in China.

On the margin side, Waters delivered a positive growth equation with a full year margin improvement. This includes a strong negative impact in H2 related to the PET price that has increased as I said earlier and the negative impact of the sharp devaluation of the sterling. These negatives were offset by portfolio valorization, mix of growth and overall operational efficiencies as well as very good buying practices to mitigate PET impact.

For 2018, we expect another year of solid growth supported by continued momentum of the category and a very strong plan. The PET prices and the sterling devaluation will continue to negatively impact margin, and the first year of Protein delivery, alongside value growth, will contribute to mitigate these headwinds in 2018.

On Page 42, regarding the drivers of performance for Q4. Plain waters grew double-digit in Q4 driven by very strong brand activation and successful innovations for new design on the Volvic brand, new format, personalization in Bonafont. This performance is supported by positive trends across all regions, Asia, Latam and Europe. We have also progressed in our initiative towards evian becoming a circular brand, where we committed to having our bottles 100% plastic recycled by 2025.

Europe, in Q4, was particularly strong, driven by a growing market, especially Spain that was backed by very good plans. Aquadrinks posted high single-digit growth, continued great momentum in this category.

And lastly, another important factor, as you know, has been the China return to growth after the transition period, confirming that the category's back to growth and that we have a healthy level of inventory on our part with Mizone. We continue to focus on protecting Mizone market shares through innovation and activation with a new campaign. So that's for the different category dynamics.

Let's move now to the rest of the performance, starting with the margin bridge on Page 44. So we have posted a very strong improvement in reported recurring operating margin, 58 basis points, closing the year at 14.36%. If we look at the bridge moving from left to right: it's a combination of first negative 33 basis points impact derived from the consolidation of WhiteWave in our base. Then going through the margin evolution versus last year, we have a positive scope effect at 21 basis points, which continues to include positive effects from the deconsolidation of Dumex China and also Stonyfield. This is the continued illustration of our focus to manage actively our portfolio of assets and countries.

Currencies had a negative impact overall -- had no impact, sorry, overall on the margin given the mix of profit of our businesses.

Turning to the underlying drivers of our like-for-like margin improvement. The 70 basis points improvement is a result of, first, a slight negative evolution of our margin from operation, which includes a positive contribution from growth, through mix and portfolio valorization, with strong negative impact from the increase of raw materials and packaging bill with an increase, as I said, in both, worldwide, farmgate milk and PET price around 9%. And lastly, mitigated by continued strong productivities over EUR 600 million that enables to mitigate most of the cost base inflation.

If we move to sales & marketing expenses, there has been a positive impact, which is mainly driven by the synergies from WhiteWave acquisition, including the merger of sales force in Noram. Greater efficiencies in our overall spend through rationalizing the content production through using precision marketing and starting really to use now the levers of Protein program. Third, we've continued to be very disciplined in the rhythm of our investment and the way we allocate resources. And lastly, there is key reinvestment behind product innovation.

Finally, there was a 23 basis point favorable impact from overheads and others, which includes, in H2, the major part of the $50 million plus synergies that we've delivered in 2017. It also includes the one-off from the insurance from H1.

Moving to the EPS bridge on Page 46. The recurring EPS closed at EUR 3.49, increasing 14.2% at constant exchange rates, again fully in line with our guidance. Going through the bridge from left to right, the main elements are, first, the impact of the consolidation of WhiteWave, representing a 9% increase in the base. Second, the combination of our like-for-like sales growth and recurring margin improvement contributed to 7.8%. As expected, financial cost increase related to the cost for the financing of WhiteWave acquisition, creating a negative impact of minus 2%. Also, the interest rates of the debt have decreased.

Tax had a slight positive impact overall, which was offset by a number of shares evolution and by negative contribution from associates. The reported EPS also includes a positive scope impact of 1.1%, again mainly related to deconsolidation of Dumex, of the small businesses in Dairy from Colombia and Chile and partially offset by the negative impact from the sale of Stonyfield.

Finally, currencies had a negative impact of minus 1.6%, mostly due to the devaluation of the GB pound, leading to recurring EPS growth at 12.6%.

Moving to Page 47. Because of some major impacts, I wanted to take the time to go with you through our non-recurring items in our performance. First, in other income and expenses, which was positive EUR 192 million, which mainly includes the capital gains related to the sale of Stonyfield and the damages awarded following the arbitration on Fonterra case. And this is partially offset by one-off expenses related from WhiteWave acquisition and integration costs for the synergies implementation as well as restructuring plans in certain countries. You remember that earlier this year, we moved Europe from 9 to 5 clusters. So it's part of it.

And second, I would like to comment on exceptional tax, positive EUR 111 million. The U.S. tax reform had a one-off noncash benefit of EUR 285 million, which is the result of the reevaluation of deferred tax liabilities. And this was partially offset by other tax effects and including the tax arising from the capital gain of Stonyfield disposal.

Moving to cash flow, Page 49. Cash delivery continues to be a key priority. 2017 was another year of strong delivery with free cash flow over EUR 2 billion, increasing 18.4%. The main drivers of the performance are the delivery of our growth and efficiency performance. It's also the discipline in pacing investments and tight monitoring of working capital where we maintain a strong performance. And also you can see that there is some variation; it's mostly linked to the inclusion of the base of WhiteWave, while our organic performance in monitoring the working capital continues to be very strong.

Moving to the change in net debt, Page 50. At the end of 2017, the net debt stood at EUR 15.4 billion, increasing by around EUR 8 billion compared to previous year. The main driver, of course, is the rise of net debt linked to the payment of the acquisition of WhiteWave. And this was partially compensated by a strong cash flow delivery and from refinancing transactions. We continue to be fully committed to have the right pace of deleverage.

Page 51, balance sheet. Regarding the balance sheet, the main changes are related to the closing of the acquisition of WhiteWave with the increase of the net debt on one side and the increase of intangible assets on the other side due to the goodwill and brand recognition.

Lastly on 2017, moving to the dividends. The Board has decided to propose to the next AGM, a strong increase of the dividend of 11.8% to EUR 1.90 per share. It will be payable in either cash or share, at shareholder's option. It is a reflection of our commitment to reward the loyalty of our shareholders. We have always made the dividend progress year-after-year. This is very strong commitment on our part, and it also reflects the confidence on our ability to continue on our agenda.

Page 53, it's time to close the 2017 year and move to 2018. Before turning to our priorities and guidance, I would like to pause again on the outlook of the overall environment in which Danone operates and will continue to operate in 2018. As I said, volatility is now the norm, and navigating it is becoming an inherent part of our business model.

If we go to 2018 and what we expect: overall milk price inflation will continue but to a lower extent than last year, so around low to mid-single digit. There will continue to be a strong increase of the crude oil price, driving up the PET pricing, leading to an overall inflation of our plastic bill to high single digit. We will also continue to be impacted by the sterling devaluation due to our import model, notably for Waters and EDP in the U.K. And finally, as you know, the food industry continues to transform at a very fast pace, which implies for us to ensure both strong agility and adaptation of our business model, while we increase the resilience of our financial equation.

Our ongoing focus on accelerating growth, driving efficiency, particularly in the first year of delivery of the Protein program savings, makes us confident in the future.

So moving to the outlook, Page 54, in terms of financial metrics. We will continue to make sure that while we are delivering the short-term commitments, Emmanuel mentioned the safety net that is underlined by delivering a consistent EPS growth, we are also progressing safely towards the 2020 ambition through gradual acceleration of sales growth towards our 4% to 5% ambition for 2020. Continued sustained margin improvement towards our objective to reach recurring operating margin above 16% in 2020. And an evolution of free cash flow that will be consistent with our pace of deleverage.

The objective for us is, of course, to make sure that we create sustainable value for all stakeholders as this will be necessary to continue to increase the resilience of our model, and ensure that we can deliver our contract with you, as we are continuing to deliver on our financial metrics year-after-year.

So moving to my next page, 55. For 2018, our objective is to deliver double-digit recurring EPS growth at constant exchange rates, and that will exclude the impact of Yakult transaction that was announced 2 days ago. 2018 will be a year of execution and delivery behind our 3 strategic priorities of accelerating growth, maximizing efficiency and allocating capital with discipline to make sure that we are moving safely towards our 2020 ambition.

I will close there, and we can open the floor for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will 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 here at SocGen. Two questions, please. Now the first one is actually an observation and a question. Out of Danone, Unilever, and Nestle, Danone is the only one that puts mix into price. This has the impact of significantly understating your volume and overstating your price mix versus peers. And it does lead to an impression that Danone has a big volume issue. And when you look at the consensus for example, the market underestimated price mix and overestimated volume, and this is far from the first time. I know this is accounting, and you're rightly focused on organic growth. But I think increasingly, it is harming your rating, and you don't get the full credit for premiumization. Would you be able to help us and try and split price from mix for the group and ideally for the 4 categories? And would you consider moving mix into volume like your nearest peers? And then secondly, on China baby, in Q3, you told us that direct and indirect was growing over 50%, and you told us that 30% was the growth in Q4. Can you split that, Cécile, by channel, because it does look like the indirect channel has slowed down?

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

Thank you, Warren, for your questions. If we take the overall performance. First, I would be careful not to characterize it with volume and price, because we're not talking about price. We are really talking about volume and value, and value is many things but price actually. Then if you take the different categories, overall, both in terms of reporting entities, both Specialized Nutrition and Waters had a positive contribution of volume and value. The difficulties this year on volume has, principally, been the headwinds of EDP Noram with the Premium Dairy volume headwinds as well as EDP international. And as I commented, it's mostly CIS and Russia and the fact that the turnaround of Europe is not fully over. So overall, it's not that we are not clear what growth mid-term will be -- when we do a 4% to 5% for 2020, it's a mix of volume and value. I think we've been very successful in Specialized Nutrition with all the trading up and the mix of growth in order to bring more value growth to our portfolio. And it's what I said around the Tailored Nutrition, it's initiative like that, so it's really about innovation and portfolio. It's not about price. And then yes, we need to continue to improve on volume in some of our big markets in EDP. So that's overall for the volume. But out of our 5 categories, 3 of them are bringing volume growth, both volume and value growth. And we need to continue to work on EDP to go back to a good mix between volume and price.

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

Can I just clarify this very quickly, sorry. So the consensus is looking for 3% price mix. You've done over 5% price mix, and volume is significantly lower than consensus. Are you able just to tell us what the mix component of the price mix is -- or what the price element was so that if it was on a like-for-like basis of peers, if we were adding the mix back into the volume, it looks like most of it is mix. But if you can just give us an idea what the overall number is would be super helpful.

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

Yes. So as you say, most of it is mix. And in mix, I put 2 things, I put the mix, the geographical mix and category mix of growth and the valorization of the portfolio. And then in some countries, there have been some countries where there is inflation. There have been some price increase, but it has been minimal part of the value growth in footprint. Then...

Emmanuel Faber - *Danone - Chairman & CEO*

And if I can just add, sorry, Warren. Just give you a perspective. If you look at -- back to Page 11 that I shared with the slate of the products that didn't exist in our portfolio and it's just an extract of what we've done, all the products that you have here are contributing in terms of mix. So the whole innovation process that we've put in place is driven by the idea of through this sweeping food revolution, we want to able to valorize our products. And so just backing qualitatively or business wise, what Cécile has just said in terms of the numbers.

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

Okay, and China baby?

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

And on China baby, overall, if you look at the growth in Q4, 80% of the Q4 incremental growth came from direct channel. We accelerated very strongly on all the direct channels. There continues to be growth in indirect but to a much lesser extent than what we've been seeing in Q3. So the

2 channels are contributing to growth, but there is clearly now an overbalance from the direct channel, which is totally consistent, which is what we've been focusing on in order to rebalance our growth to make it more sustainable quarter-after-quarter.

Emmanuel Faber - *Danone - Chairman & CEO*

And if I may add to that, what Cécile has just said, this is consistent with obviously what we want to do, as Cécile has just said. We shared with you in the early part of this year the national launch in which we are going for Aptamil ultra-premium. And the way we've done that, it's very, very successful. So that's backing the continued growth and market share gains that we have in the direct channel. And on the other side, the sort of excess or exceptional growth level of the indirect channel in Q3 was related to traders stocking in advance of what was anticipated as potentially a hard landing of the regulation on January this year. And as you know, the government has eased that, and therefore, there is certainly continued destocking effect right now, as we speak. And in any case, as we've always said, we are using this also as an opportunity to debalance our previous reliance on indirect in China to really build on sustainable channels.

Operator

The next question comes from Eileen Khoo from Morgan Stanley.

Eileen Khoo - *Morgan Stanley, Research Division - Equity Analyst*

Two questions from me, please. The first one is just on Waters. When you say you expect strong growth again in 2018, would you say this is high single-digit sort of area? And also on China specifically, on Mizone, could you give us an indication of what the like-for-like growth was in the quarter and what you think the outlook is for this year? And then secondly, on the U.S. markets, you're guiding for progressive improvement, flat in the first half. Could you talk a bit more about your assumptions within that for the various businesses? So U.S. yogurt, and particularly also Premium Dairy and Fresh. What sort of run rate are you looking at, at the moment and what can we expect going forward? And then can you also talk about generally dynamics in the U.S. market. And also, do you see any tax benefits from the reforms coming in?

Emmanuel Faber - *Danone - Chairman & CEO*

Any other questions?

Eileen Khoo - *Morgan Stanley, Research Division - Equity Analyst*

No, that's all. I have a bit of catch on.

Emmanuel Faber - *Danone - Chairman & CEO*

Thanks, Eileen. Do you want to...

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

Yes. So Eileen, you were actually going pretty fast at the beginning. But I guess, your question was around Specialized Nutrition in the 2018, or was it on total company...

Eileen Khoo - *Morgan Stanley, Research Division - Equity Analyst*

No, Waters, actually. The first question was Waters.

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

Waters. On Waters, I said that we would very much see the same growth rate for the full year than the one we had in 2017, so it's rather a solid rate. We do not expect a very big unbalance between H1 and H2, probably a low start to the year as last year. Given the fact also that there has been some phasing, some strong phasing in activities, especially, on plain Waters in Europe. So Europe has been hugely strong in Q4 and probably will start to be a bit lower. But overall for the year, we expect solid growth in line with the performance that we had in 2017 on Waters. If we move to EDP International. So yes, what we are seeing is that we will have an H1 performance that will be close to the Q4 performance. The drivers will be a confirmation of the drivers that we've seen in Q4, which is a confirmation that on the plant-based beverage, there has been early recovery and the dynamic of growth is back. There will be continued momentum in coffee creamers, as we have had throughout last year. Yogurts will continue to display resilience also because we have good innovation that came through, because the plant-based part of the yogurt is growing very nicely. But the category is overall challenged for the main part of the business, and it will continue to be in the beginning of the year. And lastly, we will continue to face negatives in our Premium Dairy business segment. We said last year that it's overall a cycle, and it will probably take a year in order to recycle this part, so it will continue to be our problem child for 2018. And then, Fresh Foods is improving but continue to be negative. We are fully focused on turning around the business. So that's the overall implication or outlook for the different segments of EDP Noram for the first half.

Operator

The next question comes from Alex Smith from Barclays.

Alexander Piers Smith - *Barclays PLC, Research Division - Research Analyst*

Can I just first clarify the answer to Warren's second question? I think you said 80% of growth came from the direct channel. Is that 80% of growth just within China ELN? Or is it the whole of ELN or is it 80% of Specialized Nutrition?

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

It's China.

Emmanuel Faber - *Danone - Chairman & CEO*

ELN,

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

ELN, China ELN.

Alexander Piers Smith - *Barclays PLC, Research Division - Research Analyst*

Okay. Got it. And that was -- it was sort of half and half before in Q3, I think.

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

Well, the overall portfolio is around half and half. And 80% of the incremental growth that we've seen in ELN China came from the direct channels.

Alexander Piers Smith - *Barclays PLC, Research Division - Research Analyst*

Okay thank you. And then, I guess, I got a question on U.S. yogurts. The category has been pretty soft for some time now. I think you've sort of said it's flat. Nielsen data suggest it's a bit weaker. But what are the drivers behind that? Because it feels like there's a lot of promotion, but it feels like volumes are pretty weak as well. What turns that around, and where's the endgame for you in this category? Is it still realistic to assume that the cap consumption can grow from a relatively low base versus Europe at least? So that's one question. And then just on raw material inflation: milk, you said, I think, you expect to grow low to mid-single digits. Presumably that varies a bit by region. So I'm just wondering are there certain markets where you still need to take some incremental pricing. Although I guess it doesn't sound like pricing is a big part of that equation based on the earlier discussion.

Emmanuel Faber - *Danone - Chairman & CEO*

Thank you, Alex. So U.S. yogurt. We unabatedly continue to be optimistic about the future of this category. It really meets many of the underlying long-term trends of consumption. We see probiotics as a significant driver for that growth. There is a frenzy about everything that goes about probiotics, and this is not only US -- I mean, many people could think that it's just the last fancy thing in the U.S. food market. The truth is that as far as Danone is concerned, there's been 100 years of obsession about how important these are for the human metabolism. You heard us share how many more clinical studies and scientific studies have been published about probiotics over the last couple of years. And so this is a strong underlying trend. An example of that is that we've just -- you know that we can claim on probiotics positive impact on digestive comfort and therefore, the efficiency of the metabolism of digestion. In the U.S., we are allowed to do this, and we have just launched a daily version of Activia shot drinkable, with billions of probiotics inside it, which is a new way of rejuvenating the Activia brand in the U.S. using the growing understanding of what probiotics means. I think another example is the fact that there is a very segmented approach to what consumers consider as healthy or not.

As you know, sugar is clearly not what they want to see but fats, including animal fat, is a trend that's back. Since 2015 now we've seen butter prices overall going up, fat prices overall going up as a result of growing demand on very indulgent occasional usage of dairy products. We've launched, for instance, in the Nordics a full fat version of Activia, which nobody would have expected to exist a few years ago. But at the same time, we are moving away of some of these: like lactose-free, that's working well for Activia overall. So I'm describing an overall broadening of the opportunities that are underlying the ability of the Dairy category, the Fresh Dairy category to meet a growing consumer demand. We're using this in the U.S. with, for instance, leveraging our International Delight coffee creamer brand, entering into the dairy category. We are using the Vega brand, the protein Vega brand, by launching at Whole Foods as we speak a yogurt with, of course, a lot of protein but they are dairy-free. You see a proliferation of mix positive, well-valorized innovations on the market.

Now we continue to also see the overall increase in the shelf space, which means the retailers continue to bet on the growth of this category. And then you have the competitive dynamics and the overall food space in the U.S. The food space is that, as you've seen, all categories in the U.S. have gone through a difficult time over the last 18 months. And gradually, this is coming back, slowly but steadily. In that period of time, the last 18 months, the combined categories of Danone and WhiteWave in the U.S. have always overperformed this average food. And that will continue to be the case.

The second is the competitive dynamics. We are in a situation where the most innovative company, not to say the only, but the most innovative company in this aisle is Danone. We have another large competitor that's mostly competing on promotions. Historically, has been the case for the last 20 years, has brought a couple of innovations. And I really hope that they will stick because the market needs that. But I was mentioning the Danimals success. It's entirely driven on market share gains against the largest incumbent on kids brand in the U.S. That has been here for 25 years. And on the other side, we have Chobani, which has grown big and big and big as a Greek competitor. And as we all know, Greek is now plateauing, and there is, today, a lack of traction of the non-Greek innovations by Chobani. And so the category is animated by much smaller disruptors by the plant-based people, including ourselves now, which overall, I would say, it's a very healthy long-term category in the U.S. We have no doubt on this. We believe that with the addition of the WhiteWave plant-based businesses, we really have what it takes to lead the innovation and the customer attraction to it, including an organic. We have relaunched our Happy Family brand into the organic space yogurt to replace the Stonyfield branch that we had. And so I'm optimistic, and a lot depends on what we do. And this is why, as Cécile said in her initial comments, that we felt good about the year 2018 in particular because we have a strong slate of innovations, and that applies to the U.S. market for Fresh Dairy. Cécile, you want to comment on raw mats?

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

So on raw material, if I look at the milk price and the range that I mentioned around low to mid: overall, Europe and Noram will be in the low part of the range and the strongest inflation will be in Latin America, mostly Argentina and Mexico. Again, we do not anticipate to have price adjustments except competitive price adjustment where it makes sense in some countries where there is a very high inflation.

Nadia Ben Salem-Nicolas - *VP Investor Relations*

Thank you, Alex. Maybe next question, and please try to limit your number of questions to 2, if possible.

Operator

The next question comes from Martin Deboo from Jefferies.

Martin John Deboo - *Jefferies LLC, Research Division - Equity Analyst*

It's Martin Deboo at Jefferies, and I really only got 1.5 questions. Emmanuel and Cécile, I'm going to, if you don't mind, re-ask the question that Warren asked right at the start, because I think it's really important, and so I want to drill a bit harder on it. Mix really does appear to be in a very big part of the Q4 variants, and I want to understand that. Maybe if I could just focus on EDP International. You had I think 6.1% price mix where I would imagine that Brazil was strongly negative for price. So you've had just from experience, and just what seem to be enormous positive mix effect. I don't know maybe if you could just talk about EDP International. And Emmanuel, I understand that you've been upgrading the portfolio, as per Slide 11. But these really do seem to be big numbers and I want to make sure I understand them properly. That's the main question. Second one, Cécile, very, very quickly on Brexit impact on the margin. Can I just understand that, because it sounds like that is a transactional impact. Therefore, is it going to be material in the margin mix in FY '18? So is it going to be sort of more than 10 basis points, I guess, is the way I would ask the question. That's it for me.

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

Okay. Maybe on the first question to go into one level deeper so that you understand better. In EDP international, if you take, for example, CIS. CIS has been growing in value very solidly, and this is thanks to a very winning strategy in terms of focusing on high-value brand, very rich portfolio of innovation, very successful activation on both brands like Activia and also Prostokvashino, who has a very nice high-valued portfolio range. And then you had, on the other hand, very negative volume. Because as you know, and that's been a strategy that we've been having now for some time, the portfolio in terms of milk, which is a low value, is a big part of the portfolio in volume. But a very small part of the portfolio in terms of value. So that is driving some of the big impacts that you see in mix value, value volume, growth in EDP International. That's for Russia, and I will let Emmanuel comment more if he wants. And second big is also Argentina, where we've been having some very nice growth in terms of valorizing the portfolio in innovation and where we have negative volume. So that's overall the explanation. Understanding that we continue, in Europe, we still have negative volume, but we continue to improve sequentially quarter-after-quarter on our brands like Activia, Danone, and we have positive volume on the portfolio of small and local heritage brands. We have countries that are also being very dynamic in terms of both growth in volume and value like Mexico. So overall, the plan is still to make sure that mid-term, the growth that will come from EDP International will be both in volume and value. But there is not the kind of fatality of volume being negative, and that's why I took a very illustrative example on Russia, which I think describes it well.

Emmanuel Faber - *Danone - Chairman & CEO*

Yes. And so hopefully, of course, in line with what Cécile has just said, Russia is not only very illustrative, but it's also a major contributor to this. Given the size of Russia if you -- of Russia dairy, if you put it as a function of the total size of EDP International. The other thing I would like to add is that you've heard us mention several times over the last couple of years about our revenue growth management programs. That have been all over the place in Dairy and continue to operate right now. We are, as we speak, in Europe in negotiations with the trade in France and somewhere else and other countries, where you take the example of France, for instance. We are reducing multipacks. We are overly relying on multipacks like by 8, by 12, by 16, by 24 to move into more smaller units or single serve. So it's an example where you're improving the overall mix without many other changes. But the obsession about valorizing the portfolio is there. And it's been there, and it's a function of how overall EDP has been able to deliver the margin improvement that we've been overall talking about despite some headwinds. So it's another illustration, and I wanted to just add this European PRGM approach because it's also a contributor to this wide, today, gap between value and volume.

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

And then regarding your question on the Brexit impact. As you know, U.K. is one of our top 10 markets, and we operate in all of our categories. In Waters and Dairy, we have import business model. So to answer your question, the short answer is yes, and we continue to be working on mitigating the impact. And as you've seen in 2017 where we delivered a very strong improvement in margin having this already, the impact in 2018 will be close to 2017 in the margin, transactional impact, as you said. And we will continue to work on all the levers I described in order to mitigate this effect.

Nadia Ben Salem-Nicolas - *VP Investor Relations*

Thank you, Martin, for your question. Thank you, Cécile. Thank you, Emmanuel. We are available to follow up later in the day. It's going to be a long day today. Thank you very much for your attention. I propose we close this call at this point. Thank you very much.

Cécile Cabanis - *Danone - EVP, CFO, IS/IT, Cycles & Procurement*

Thank you, everyone. Have a good day.

Emmanuel Faber - *Danone - Chairman & CEO*

Thank you, everyone. Goodbye.

Operator

That will conclude today's call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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