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OVERVIEW:

Co. reported 1H18 reported EPS of EUR1.87 and 2Q18 reported sales of EUR6.4b.

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PRESENTATION

Operator

Good day, and welcome to the Danone First Half Year Results 2018 Conference Call. Today's conference is being recorded.

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

Nadia Ben Salem-Nicolas - *VP Investor Relations*

Thank you, Operator. Good morning, Nadia Ben Salem-Nicolas speaking. Thanks for joining us. We know it's a busy day for you, so we appreciate your attendance to this call, exceptionally brought forward. Hosting the conference today, Chief Financial Officer Cécile Cabanis. Cécile will go through the presentation that can be found on our website, and we'll leave enough time for your questions in the second step. As usual, before we start, I draw your attention to the disclaimer on Page 2 related to forward-looking statements and financial indicators.

And with that, let me hand it over to Cécile.

Cécile Cabanis - *Danone SA - Executive VP, CFO, IS/IT, Cycles & Procurement*

Thank you, Nadia. Good morning, everyone, and thank you for joining us today. I know it's been a busy week, and it will be a busy day for you. So I will directly jump to Slide 4 and start by highlighting that we delivered in H1 another semester of very strong recurring EPS growth, 13.4% at constant exchange rate and excluding Yakult Transaction Impact. And overall a strong set of results, coupling 4% net sales growth, 51 basis points recurring operating margin improvement and over EUR 1 billion of free cash flow.

These strong numbers achieved despite expected and unexpected headwinds in some markets this semester reflect the underlying strength of our business and our continued financial discipline and focus, as you know, since 2014, to strengthen our growth model.

Before going to the results in detail, let me first start by highlighting some important headlines of the past semester, and I will start with Page 5. I am pleased to report progress in WhiteWave performance, 1 year after the completion of the acquisition and especially that we are actually delivering strong sales growth above 5% in the key categories of plant-based in Noram and Europe and Coffee Creamers, altogether representing about 75% of the former WhiteWave business.

This contributed to the positive inflection point this quarter in the U.S., now our largest market, and this great momentum confirms the strong rationale for WhiteWave's acquisition and strengthens our confidence in the value-creation potential from this move.

It shows that WhiteWave is a high-quality business, accretive to our models with brands that are strongly complementary to our own. It has fitted well with Danone's operation in North America, and more generally. The business is being successfully integrated, the synergy capture continues to be fully on track, and the innovation momentum is strong again and the business has started to benefit also from an accelerated distribution expansion, both in the U.S. and in Europe. So our strategic choice is now paying off.

Another important part of the agenda on Page 6 and another very important development of this semester is a major step-up of our organization in terms of delivering innovation with an accelerated ability to deliver more, better and faster innovation in line with the new paradigm of the ongoing Food Revolution. On Slide 6, you'll see some of the best-performing innovations that we put in the market over the last 12 months across our businesses and geographies. If I name a few: in Essential Dairy and Plant-Based, you have, on the top left, Activia Dailies, the most successful innovation in the yogurt shelf in the U.S. In Specialized Nutrition, in the middle top part, Aptamil Platinum representing now more than 20% of our ELN China direct business. And in the middle of those 2, in Waters, a new ready-to-drink tea line in China, showing the success in building an innovation platform outside Mizone in that country.

Continuing to move on the highlights, on Page 7, you have the growth of the Q2 by reporting entity. And when we look at the underlying performance of each reporting entity, Q2 was a solid quarter with a lot of progress, especially in rebalancing the growth profile within our portfolio and broadening the sources of growth. Because if you look at it, and excluding Morocco, all 4 reporting entities are delivering growth in the second quarter, and the company volume growth was positive as well.

While Specialized Nutrition continued to grow at double-digit rate, but sequentially decelerating, Waters pursued its mid-single-digit broad-based growth performance, and we have both EDP that made a meaningful contribution to growth, with EDP Noram returning to like-for-like growth, despite the ongoing impact from the fresh food business, and EDP International's underlying performance confirming its stabilization if we exclude Morocco.

Page 8. On the efficiency side, the Protein efficiency program that we started to implement last year is now underway and fully on track. The first savings are in line with our plans, about EUR 75 million of gross savings year-to-date, and we are continuing to be disciplined to allocate resources in the areas of the business that will generate sustainable value over the long term. If we look at the savings, they are delivered from all key areas of our indirect spend structure.

In Logistics, we've been launching new tenders and re-organizing routes to market.

In Professional Services, we are deploying global policies for travels and events, and we have created central control towers for consulting services.

In Sales and Marketing, we are spending our money in a smarter way, generating efficiencies in nonworking A&P like content production, market research and asset storage. So overall, we have been very encouraged by this start from this semester, and we are targeting EUR 200 million gross savings for the full year, fully on track to deliver EUR 1 billion savings by 2020.

Moving to Page 9. We said before, and regularly, that volatility is increasingly an everyday part of operating an international business. It is something that we'll continue to navigate. And in the first half of our performance, we had some impact from a number of macro headwinds. First, from left to right on this chart, a strong increase in crude oil creating a 20% rise in PET cost. A 20% increase in U.S. freight costs, we had the opportunity to comment that already in Q1. And lastly, transportation strikes both in Brazil and in France that have impacted topline and bottom line.

All of this had an adverse impact on our growth and margin in H1, but we are continuing to improve our ability to address them, through accelerated efficiencies, discipline in resource allocation.

Turning to the next slide to Morocco, where, as you know, our brand, Centrale Danone, started to be called out on social media 3 months ago by a boycott. This is an unforeseen event that sits outside the increasingly normal volatility I have just described. The impact on our local business has been significant so far, with Q2 sales having decreased by 40% and recurring operating income down EUR 25 million. While the situation is ongoing and even though it is too soon to make any definitive prediction, it is clear that this unprecedented event will continue to weigh on our performance for the second half.

P&L is including a non-cash, non-recurring operating charge of EUR 661 million, resulting mainly from a goodwill impairment of Centrale Danone. Following our CEO personal visit to Morocco to understand the reasons for this boycott directly on the ground, we are studying how to make the relevant changes to our fresh pasteurized milk model in response to consumer environment, where purchasing power is under pressure. And we are fully ready to offer greater transparency and engaging in consumer dialogue, which, we hope, will be an important first step to restore the situation.

On Page 11, to end up on the highlights and before going into the detail of the numbers, you have here the sequence of EPS since 2014 (sic) [2015]. H1 2018 was another semester of progress and delivery, with very strong recurring EPS growth, 12.8% at constant exchange rate. And looking at the sequence since 2015, this has been a consistent delivery, semester after semester, in line with our commitment.

So let me move now to more details in term of numbers. I will start Page 14 with the usual sales bridge, the sales bridge for Q2 2018. If you look on a reported basis, sales declined by 4.4% from EUR 6.7 billion to EUR 6.4 billion in the second quarter 2018, impacted especially by strong headwinds from currency impact. You see the red box at minus 7.6% in the middle of the bridge. If we go through the bridge from left to right, we have a marginal positive impact of 1.3% from the contribution to net sales of WhiteWave for the first 10 days of April 2017 until the acquisition closed.

We have a negative impact of 1.4% from other changes in scope of consolidation. It's mostly linked to the disposal of Stonyfield in August last year. As in Q1, we have a very strong negative currency impact, 7.6%, reflecting primarily the appreciation versus Q2 last year of the euro against the U.S. dollar, the Argentinian peso and the Russian ruble. And finally, you can see a 3.3% like-for-like growth. Actually, the fourth consecutive quarter, where like-for-like growth is above 3%, still driven by value. And if we exclude the impact of the Moroccan boycott, like-for-like growth could have been 4.3% with positive volumes, confirming improved volume dynamics that we already registered in Q1.

The value part, 3.8% is driven by product and country mix for about 2/3, in line with our continued efforts to enhance our offering in each category, and for about 1/3 by price reflecting some targeted price increases, primarily in LatAm.

Let me now go through each entity to look at Q2 growth levels and dynamics. I will start with Specialized Nutrition on Page 16.

Specialized Nutrition posted another excellent semester of highly profitable growth with a Q2 growth at 10.6%, in line with expectation, driven by a very strong performance in both Early Life Nutrition and Medical Nutrition.

Starting with Medical Nutrition. Medical Nutrition grew mid- to- high single-digit rate, confirming the strength of its broad and balanced platform of growth, all regions and all product categories contributing to this performance. The performance was supported by robust growth platforms in Europe and in the Rest of the World, and notably in China, supported by a fast-growing aging population and benefiting also from some phasing effects.

Early Life Nutrition posted a double-digit growth in Q2. China remained the main growth engine growing at around 30%, with balanced contributions from both volume and value. China's performance was supported by a still very dynamic market, driven by Growing-Up Milk segment. Our performance in China was also supported by solid execution behind our strategic priorities. We continue to successfully expand in Ultra-Premium and invest in our direct sales distribution model, leading as a result to a continuous growth of direct sales with further market share gains in all direct channels.

The performance in ASPAME was also strong, notably India and Africa. In domestic Europe the sales slightly decreased ahead of the innovation introduction. Latin America generated double-digit sales growth with both Argentina and Brazil positive in sales and volume. And in North America, Happy Family continued to expand, growing high single digit.

H1 margin for Specialized Nutrition was outstanding, at 25.5%, up 121 basis points on a like-for-like basis, driven by very favorable product and country mix from China, moderated by an unfavorable base of comparison given, if you remember, the 2017 one-off that we had related to the insurance repayment for the fire in the Cuijk factory in the Netherlands.

For the full year, we continue to expect Specialized Nutrition to grow at mid- to- high single digit, with, as already shared, an H1 stronger than H2, given expected demand slowdown in light of a lower number of births in 2017, in China, for ELN and very high basis of comparison, especially given the restocking last year of the indirect channel in Q3.

Moving to EDP Noram. Page 18. In Q2, EDP Noram registered the fourth consecutive quarter of growth improvement, moving back to positive, nearly 3% growth, if we exclude the Fresh Foods business, which remains a strong headwind. Price mix effect was still negative in Q2 reflecting still the pricing pressure on Premium Diary and some negative mix effects within Vega where the ready-to-drink and bars are growing faster than powder.

If we go through each segment, first, Yogurt, slightly positive growth for Danone in Q2, including positive volume in a low single-digit negative category that continues to be penalized by the decline of the Greek segment. Q2 growth was driven by innovation and distribution, but also velocity gains in valorized segments that include Probiotics; I showed you earlier this Activia Dailies innovation, which is very successful.

In the Kids segment, as well, there is a nice growth, including Danimals which registered nice velocity with successful activation around Incredibles. We also accelerated plant-based yogurts, which now represent a sizable growing portion of yogurt offering, via innovation and distribution expansion as part of the revenue synergy plan.

Moving to the Plant-Based segment. The plant-based segment grew at high single-digit rates, both in volume and sales, supported by a fast-growing category, including double-digit demand for nut-based products and a good performance of valorized almond-based innovation in large size, premium bottle offerings and novelties. The new Silk communication campaign launched last quarter also enabled to drive velocity and Vega delivered another strong quarter of growth.

Coffee Creamers delivered strong growth in Q2. The category continues to be very healthy in term of growth rate. Better-for-you products and ready-to-drink coffees under International Delight and Stok brands continued to perform very well.

Premium Dairy has registered another quarter of decline, mid-single-digit negative. Organic milk supply continues to outstrip demand, driving lower price on the shelf as we already observed in the previous quarter. Horizon was, however, able to slightly outperform the category, including high-value milk extensions. The base of comparison also starts to be more favorable, even if the category is expecting to remain complicated for the remaining part of the year.

Fresh Foods performance continued to weigh in the global performance, with sales declining at double-digit rate, impacted by the discontinuation of the fruit business as part of our turnaround plan. The like-for-like margin of EDP Noram was down 43 basis points in H1, mainly due to the transportation cost inflation. We are reducing the number of spots according to the synergy plan as well as working on long-term contracts. There was also a negative mix that I just mentioned, mainly driven by Premium Dairy performance. Those 2 headwinds absorbed the synergies that we delivered which, in H1, if we go quickly through the synergy, were mostly around procurement and SG&A.

On the synergy plan, we are fully on track to deliver for the year. And I think most importantly in terms of dynamic, given the good Q2 performance and the inflection point in term of positive growth, we are very confident that H2 will confirm this inflection in term of growth and will enable to rebalance the overall profile of growth for the company.

EDP International, Page 20, as I said, excluding Morocco, Q2 performance confirms the stabilization of the reporting entity, with the second consecutive quarter with slightly positive growth, with all regions contributing to the improvement. Morocco, as you know, is representing around 6% of EDP International and sales were down 40% in Q2.

If we move through the different regions. So in Europe, sales were slightly negative, still in Q2, around in line with Q1. The trends by countries were still varied. From one side, U.K. and Nordics grew solidly, both in Plant-Based and in Dairy, through both global and local brands showing the potential of the combination of the 2 categories. Eastern Europe registered positive growth as well, driven by Activia innovations. On the other side, France and Spain remain complicated even if we are seeing improvement and progress.

Activia and Danone brands pursued their sequential stabilization and local brands like Les 2 Vaches and Light & Free keep growing strongly.

Moving to Alpro. Alpro showed another quarter with growth around 10%, driven by an improved product portfolio and also revenue synergies, both in France and Spain, where Alpro became the #2 in plant-based alternative to yogurt only a few weeks after the launch.

Moving to CIS, sales registered another quarter of strong growth with mix continuing to improve consistently with our valorization strategy. Russia is another example of the right balance between global brands, Activia, Danone; and local brands, Prostokvashino and Danissimo and both segments are contributing to this strong growth.

Latin America registered strong growth in Mexico and Argentina, but was once again penalized by Brazil. We are making good progress on the turnaround plan, both in reframing our product portfolio and our route-to-market. Unfortunately, we were negatively impacted by the truckers' strike. So overall performance in Q2 was double-digit negative, in line with what we observed in Q1.

On the margin, the like-for-like margin on EDP International was up 26 basis points in H1, as a result of an acceleration in efficiency and portfolio valorization, allowing the entity to more than absorb the hit of Morocco. Excluding Morocco, the improvement would have been 50 basis points. In the second part of the year, will continue to see EDP improving and confirming its return to profitable growth, excluding Morocco.

Last entity, Waters, Page 22. Q2 represented another strong quarter for Waters, 4.8% like-for-like growth, in line with expectations, and again characterized by a broad base of growth, both in terms of regions and categories. If we go through the regions, in Europe, the sales growth was solid, in line with Q1. The benefit from the acceleration of valorized innovation introduction and good weather were, however, partly offset by the French railway strike on evian, for which the majority of the volumes are shipped by train.

Asia delivered high single-digit growth, led by Indonesia and Turkey. But in China, Mizone performance was solid with stable market share, including the launch that I mentioned earlier on ready-to-drink tea line whose results, as I said, are promising. So overall, all countries in Asia are contributing to growth now.

Latin America was a bit soft in Q2, penalized, in particular, by Mexico where weather was a headwind. Argentina is growing in value, but decreasing in volume, especially on premium aquadrinks. The margin level of Waters was severely impacted by PET price that keeps increasing even more than previous expectations. We had also some impact from the railway strike in France that forced us to find alternative logistic solutions. These generated some sale losses as well as some unexpected transportation costs for a total of around EUR 10 million. This will also have probably an impact on the summer season due to some out of stock as a consequence. We consider the solid H1 performance to be confirmed in the second part of the year, in line with the outlook given for Waters at the beginning of the year.

Moving to the rest of the P&L, starting with the margin bridge on Page 24. So if we go through the margin bridge, we have an improvement in recurring operating margin of 20 basis points on a reported basis, closing the semester at 14.27%. This performance is a combination of a negative 49 basis points impact from the last quarter of consolidation of WhiteWave in our base, Q1 being historically a low quarter for WhiteWave. A slight positive effect from scope at + 8 basis point as a result of the deconsolidation of Stonyfield, and a slight positive impact from currency as a result of our country mix, 9 basis points.

If we turn to the underlying drivers of our like-for-like margin improvement, which was strong 51 basis points of margin expansion, we have 24 basis points negative evolution of our margin from operation in light of the considerable inflationary environment that weighed for roughly 330 basis points in our cost of goods sold, in particular due to PET, transportation cost in the U.S. and headwinds in currency, almost entirely offset by our profitable growth model based on an improvement of our portfolio mix through our valorized innovation, which accounted for 160 basis points as well as accelerated delivery in efficiencies, which created an extra 150 basis points in the margin from operations versus last year. Protein unlocked also sustainable savings in selling and overhead expenses and together with the synergies from WhiteWave integration and our continuous discipline in resource allocation contributing also for 75 basis points of margin expansion, which is the total of the 2 last green boxes that you have on the bridge.

So overall, our strategy of improved portfolio mix combined with accelerated efficiencies, out of which Protein and synergies accounted for roughly 100 basis points this semester, enabled us to increase strongly our like-for-like margin in a context that was including a lot of headwinds.

Moving to the EPS on Page 26. Recurring EPS closed at EUR 1.76, increasing by 13.4% at constant exchange rates and excluding the Yakult Transaction Impact. If we go through the bridge from left to right, the main elements are the impact of the last quarter of the consolidation of WhiteWave, representing 3.5% positive, the combination of our like-for-like sales growth and the recurring margin improvement contributed to 7.9%. The financial costs are decreasing slightly, creating a positive impact, thanks to the early repayment of an expensive bond from WhiteWave in November 2017.

The tax had another slight positive impact notably from the U.S. tax reform, and we have a slight negative impact from scope that is linked to the deconsolidation of Stonyfield. Finally, on currencies, strong negative impact, 8.2%, mostly due to the devaluation of the British pound, Russian ruble and Indonesian rupiah leading to the overall recurring EPS growth at 4.6%.

Page 27, a few comments on non-recurring items in the P&L, because we had 2 major impact that around compensate themselves. First one is the positive impact of the EUR 700 million, resulting from the capital gain of the sale of part of our participation in Yakult. You can see it in the line "net income from associates". And on the other side, a negative EUR 660 million charge in "other operating income and expenses" that is related, as I mentioned earlier, to the impairment of Centrale brand in Morocco and part of our goodwill linked to Centrale Danone.

The net of the 2, together with some other items, are bringing our reported EPS to EUR 1.87, up around 20%, versus H1 2017 number.

Page 29, free cash flow. H1 2018 is another semester showing Danone's strong cash conversion and delivery model with the free cash flow at over EUR 1 billion, increasing 20% versus last year. The main driver of the performance is the increase in NOPAT. Investments are in line with last year at 3% of net sales. The slight deterioration that you see around working capital, which overall remained well negative is a pure mechanical impact driven from the consolidation of WhiteWave on a full year basis, while H1 2017 only showed 1 quarter of net sales.

This lead to me the bridge of net debt on Page 30. At the end of 2017, the net debt stood at EUR 15.4 billion and the strong cash flow generation as well as the Yakult consideration brought it to EUR 13.7 billion, well on track with our deleverage commitment. And if you even look at it, we've been able to deleverage the balance sheet by EUR 4.5 billion over 12 months, which is a very nice pace for deleveraging the balance sheet.

Moving on to Page 31, and maybe to a bit summarize H1 and give you some outlook. It is clear that we had to face strong external headwinds in H1 and that it will continue to weigh on our performance in the second half. H2 will notably continue to be impacted by the boycott in Morocco, in EDP International and we know that there will be a slowdown in the overall growth of Specialized Nutrition.

Having said that, the strong numbers we delivered in H1 despite the volatile backdrop, we are entering H2 with an increased confidence in the underlying strengths of our operating model for a few reasons. First, there is greater agility within our organization, delivering more effective deployment of innovation. Second, our enhanced focus on efficiency and discipline is driving improved margins and agility to better tackle the volatility backdrop. Third, we have a stronger balance sheet from our continued discipline in capital allocation. And last and probably very importantly, we are doing great progress with WhiteWave integration. We have more growth engines in our portfolio with particularly EDP Noram going to the inflection point of positive growth and with Waters growing steadily in all regions.

So, as a consequence, even though H2 growth will be lower than H1, we continue to expect accelerated sales growth on a full year basis versus 2017. We will ensure that we continue to accelerate our efficiency to also allow another sustainable like-for-like recurring margin expansion for the full year. Having all this in mind, I confirm our full-year guidance of double-digit EPS at constant exchange rate and without the impact of the Yakult transaction.

Starting in 2015, I told you that volatility would only increase and that we needed to strengthen our growth model in this reality and make it more resilient in order to make sure that we would absorb the bumps and we would have a safe journey towards our agenda of sustainable value creation. With a stronger portfolio after WhiteWave acquisition, with our ability to step up in innovation and execution and accelerate efficiency, I have every confidence that we are making the right steps to increase the fundamental strengths of our operating model to deliver sustainable value.

And that would be my concluding remarks. And with that, I'll leave the floor to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Nadia Ben Salem-Nicolas - *VP Investor Relations*

Nadia speaking. For the discussion part, if you could be so kind as to limit your questions to two and ask them all at a time so as to allow as many as possible to participate. Thank you (Operator Instructions)

Operator

(Operator Instructions) We'll take our first question from Eileen Khoo from Morgan Stanley.

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

Two questions from me. The first one is just on Morocco. If you could, give us an update on where your local sales are currently trending now in terms of the actual decline? And where your prices are now relative to competitors there? What steps you think you can take to mitigate the risk of this kind of social media boycott happening in your other businesses? That's the first one. And then the second one is just on EDP Noram. It's great to see that business accelerating in momentum. On the business that's still a drag, such as Fresh Foods, can you just update us on your thinking there?

Cécile Cabanis - *Danone SA - Executive VP, CFO, IS/IT, Cycles & Procurement*

Thank you, Eileen. Overall, the trending in terms of sales in Morocco continues to be the same as the one we've seen in Q2, in terms especially of fresh pasteurized milk. In terms of mitigation plan, there are a few. We are contemplating having some innovations that will be more affordable and also because we will do them in different packaging, and that will help in terms of going towards more affordable products. The other thing is that we are studying a plan in order to also adapt our cost base, work with the farmers in order to overall mitigate the overall impact of the boycott, locally, in our Morocco equation. In terms of your question regarding how we can avoid to have this situation, I think you need to look at Morocco as a very specific situation, where the boycott was really about people going after the fact that their purchase power and inequalities are increasing. Centrale Danone is a very symbolic brand and was caught into that boycott, but it's much broader than a boycott against the Centrale brand. So we continue to work on that. You know that our CEO went there. We are opening a consultation to rebuild a dialogue and trust with the people, that will start very soon. And with that, we believe that we can find a way with the people on the ground to adapt our business model, especially from fresh pasteurized milk. We continue to do many initiatives and innovation on the Fresh Dairy Products part, and we hope that we can mitigate effects.

On EDP Noram, your question was around the Fresh Foods business. So Fresh Foods business, we continue to be very focused on the turnaround. We have new management that is coming, that is very expert and specialized in this type of business, before we didn't have a specialized management. And we are working very hard on continuing to make the turnaround. We have, as I said, discontinued a line of business, and we continue to work on that. I have nothing else to say, that's what I said in the first quarter. So no news to share on that front.

Operator

Our next question comes 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 to come back to Morocco. Obviously, that is a pretty serious issue and the impact it's having on the group overall. You talked about an operating loss of EUR 25 million in Q2. I'm just wondering, do you sort of envisage that sort of loss going on through the rest of the year? Is that included in the overall guidance? And as an add-on on Morocco, you've written down it looks like 3/4 of the goodwill, is that your sort of long-term projections about that market? Just a little bit more detail on Morocco? I think it is a very important issue. And just one point of clarity, did you say that nutrition would slow down to mid- to high single-digit in H2? Or are you saying that for the full year it will be mid to high single-digit?

Cécile Cabanis - *Danone SA - Executive VP, CFO, IS/IT, Cycles & Procurement*

Thank you, Jon for your question. So to answer your question on the impact of Morocco, we have overall taken a very prudent outlook for the remaining part of the year acknowledging that we don't have yet all the answers, even if we are building a mitigation plan to minimize the overall impact. So when I confirm the guidance, this is, of course, acknowledging that Morocco could continue to weigh on the performance for H2. And then on your question on Specialized Nutrition, there is nothing new there. What we said already in Q1 is that for the full year Specialized Nutrition would grow mid- to high-single digit for the full year again. And this was going to be driven by a very strong H1, with continued very strong dynamic demand in China. And then in H2, which will bear the impact of a very high base of comparison, because you remember that last year in Q3, we had more than 70% of growth in China, including restocking from the indirect part of the traders. So the sales as a comparison and in percentage of growth will slow down. We continue to very well expand in Ultra-Premium through our innovation of Aptamil. We continue to very successfully gain market share in the direct part of the channel, and we've just introduced new innovation in terms of an organic offering. So we are fully confident of China's both potential and the strength of our business going forward but we have this next quarter that will slow down versus the beginning of the year.

Operator

Now we'll take our next question from Mitch Collett from Goldman Sachs.

Mitchell John Collett - *Goldman Sachs Group Inc., Research Division - Executive Director*

Can I ask about the impact of the rail strike on the Waters business? Can you quantify the impact of that in Q2 and perhaps give us some color on the impact that you said you would expect spilling over into Q3? And then secondly on margin expansion, most of your margin expansion in 2017 and the first half of this year came from Specialized Nutrition. Given the growth trajectory you've guided to for the second half, is it right to expect margin expansion to come more from the other divisions than from Specialized Nutrition?

Cécile Cabanis - *Danone SA - Executive VP, CFO, IS/IT, Cycles & Procurement*

Thank you, Mitch. So on the railway impact, overall, we had, in Q2, some impacts in the top line that also led to what I said around having a solid Europe, but not strong, despite some good weather and good innovations. And net-net in terms of EBIT, if we take both this impact on the top line, but also on the fact that we had to find alternatives in terms of transportation costs, you can factor in around a bit more than EUR 10 million as a net EBIT impact from that. Because we are having a very hot season now, we think there might be some spillover effect in the H2, given the situation, where in some cases we were not able to fully deliver and we've been having out of stock, which, in a very hot season, could have some spillover impact on our H2. But that doesn't absolutely put in question, the overall outlook for the Waters category growth for the remaining part of the year, and I fully confirm what we said earlier in terms of the Waters growth for the year.

Then your question on margin, coming especially from Specialized Nutrition in terms of enhancement of margin, that's correct. We've been benefiting in Specialized Nutrition from a very strong rhythm of growth, including positive mix in both product and geographies. But if you look at it, I think, it's very important to notice and that's why I made the comment several times on the call is that we are starting to rebalance our growth model and for that, we will rebalance in H2, our profitable growth model. So yes, in H2, you can probably factor in that there will be more profitable growth engines and the contribution will be a bit rebalanced between the different entities. And that, ultimately, is what is continuing to build the strength and the resilience of the model going forward with an important step. Next question?

Operator

(Operator Instructions) Our next person from the queue is Alain Oberhuber from MainFirst.

Alain-Sebastian Oberhuber - *MainFirst Bank AG, Research Division - Head of Equity Research Switzerland & MD*

Alain, MainFirst. Could you give us a little bit more insight regarding the development of these major brands Activia and Actimel and where we stand? And secondly, maybe you could also give us some outlook for France and Spain? When do you expect that these 2 markets could find some bottom and start to grow again?

Cécile Cabanis - *Danone SA - Executive VP, CFO, IS/IT, Cycles & Procurement*

Yes. Sure. Thank you, Alain, for your question. In Activia, we are registering great progress. First it's important to say that we have different situations. Activia is a worldwide brand. It's growing very nicely in the U.S., as I said, given especially the new innovation on the Dailies probiotic shot. I suppose your question was more around Europe. So in Europe, we continue to make a lot of progress in terms of improving, that being innovation, including innovation into the new paradigm with some new ingredients, some new pack that are being very well received. So overall, we're making good progress, and we expect that we will continue and we expect that we can reach stabilization soon. If we look at the situation in France and Spain, we are really accelerating our transformation in France and Spain, and it's important to note that the introduction of Alpro, the inspiration of the momentum of Alpro will, we believe, accelerate the overall turnaround for these 2 countries. There has been also some very specific innovations. In France, we've launched a world range that we call Les Yaourts du Monde, the World's yogurts, with specialties of yogurt from all over the world and it's starting quite well. We also have drinkable that, we call Yoothie, Le Bio, which is working well. As I said, Activia Superfruit and Infusions with new ingredients are working well. We just introduced Light & Free, which is starting also well. So in France, we are quite confident that the trend will improve and that we can here as well reach stabilization in the foreseeable future. Spain, we have also good introduction from some mousse, drinkable Danone and Oikos summer edition. I think it's really coming. It's taking a bit of time, but it's coming. It's improving, and we can be confident that even if the market remains competitive in both France and Spain, we can really see that we will, as I said, reach better trends in the foreseeable future. We are seeing already in July quite good improvement in those countries.

Nadia Ben Salem-Nicolas - *VP Investor Relations*

I think we don't have any other questions.

Nadia Ben Salem-Nicolas - *VP Investor Relations*

So I propose we stop the call here as it is a very busy day for everyone, maybe I'll let Cécile make some closing remarks.

Cécile Cabanis - *Danone SA - Executive VP, CFO, IS/IT, Cycles & Procurement*

Just one really because I think it's really important as we are caught in the short-term result, maybe I would really like to insist on that. I think that, as we said, now for several years, volatility is the norm and will be there, and we will have some headwinds and volatility in our quarters. So what we really need to focus on is continue to strengthen our growth model to navigate this reality. And as I said, we have a stronger portfolio after WhiteWave acquisition with very strong and dynamic categories that also inspire the rest of the portfolio. We've been really stepping up in terms of innovation and agility in getting the innovation to market faster in the new paradigm of the Food Revolution. And we've been accelerating efficiencies and the mindset of efficiency is quite significant. And as a result, when you look at the growth model, I think fundamentally, we are really improving the strength of the model. It's our focus every day, and this gives us a lot of confidence that we are on the right track of our agenda. I wish you a great day, busy day, I know. And a great summer, if I don't talk to some of you by then.

Nadia Ben Salem-Nicolas - *VP Investor Relations*

Thank you very much. This is the end of this call.

Operator

Thank you. That will conclude today's Danone's First Half Year Results 2018 Conference Call. Ladies and gentlemen, thank you for your participation. You may now disconnect.
