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EDITED TRANSCRIPT

BN.PA - Full Year 2016 Danone SA Earnings Call

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OVERVIEW:

Co. reported 2016 reported sales growth of minus 2.1% and EPS of EUR3.10.

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PRESENTATION

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Okay, good morning, good morning all, for those being in Paris and for everybody being connected. Thanks for listening to us this morning on the day we're going to present the 2016 full year Danone results. I would like to invite you to go, as classic, through the disclaimer, which is page 2, and remind you that all definitions are on the back of the presentation. So we're going to close the door here in Paris and I will now welcome Cecile to start with the financial results. So Cecile?

Cecile Cabanis - *Danone SA - CFO*

Thank you Regis. Good morning to all. I'm very happy to be here this morning to go through the results of 2016. I will start with the detail of the results and then Emmanuel will give you a progress report on our transformation agenda.

Before I go into the details of each indicator, I think it's important to pause on the overall key highlights because, as you can see, these key performance indicators really illustrate our agenda and our ability in order to progress on building a more resilient model through increased discipline, better resource allocation and some management of risk and opportunities.

As you know, quarter after quarter we have been able to review our efficiency, increase our efficiency and review and manage our resource allocation so as to be very careful not to go for tactical short-term growth opportunities.

So in an environment that will continue to be volatile, where we have markets in transition and where the growth has slowed down, these results really show our commitment in order to react and to be able to deliver strong financial results while we are continuing to transform our model for the future.

Being able to deliver a very strong EPS growth through a significant increase of margin is the result of our day-to-day discipline and focus on monitoring our result.

If I move, and if I look at the last three years, on this chart you really have the illustration of the model we said we wanted to build and make progress on, which is really a rebalancing of the model to reflect the right combination between sales and margin and, as you see on the left side, you have the fragile environment and some transition markets, which has led to the growth to slow down.

Basically it's a combination of different elements. The first one is a macroeconomic deterioration in some of our key markets, mainly Brazil and Argentina. It's also the effect of the transition in China of two of our categories. It's as well a slower turnaround of Dairy Europe than we had expected, and I will come back to that. And finally, it's also a very solid performance on all the other regions and categories of Danone.

On the right, as you can see, the margin evolution which perfectly illustrates once again increased discipline and continued focus on efficiency, and which has led us to deliver profitable growth in 2015 and to significantly increase margin in 2016 that has compensated the growth deceleration and that has led to a very strong recurring EPS [like-for-like] (corrected by company after the call) growth of 9.3% that you see on chart seven, for those who are behind the camera.

And this is really illustrating our firm commitment. As we shared previously, we will ensure that we continue to drive a combination of sales and margin that will consistently flow into securing gradual and solid EPS growth for the future.

Discipline has also led us to a significant increase of free cash flow, as you see on the right, plus 16.8%. Some of you challenged us last February because we were not giving any guidance on cash. Well, as you can see, it illustrates that it is really on top of our agenda, and given the fact that we will be financing the acquisition of WhiteWave, it will remain a very strong focus of the agenda, to make sure that we both deleverage at the right pace but also that we keep the flexibility to finance our future growth.

So let me go now into the details, and I will start with the classical sales bridge. On a full year basis we have a like-for-like sales growth of 2.9%, and on a reported basis the growth is minus 2.1%. Going from left to right, so the reported growth is including a negative currency impact of 5.5%, which is mainly driven by the Argentinian peso, the Russian ruble, the Mexican peso and the Brazilian real.

In terms of scope, we have a slight favorable impact of 0.5%. This is linked to the consolidation of Fan Milk at the end of 2015. And this brings me to the like-for-like performance of 2.9%, which is made of a slight negative volume effect of 0.2% and a positive value effect of 3.1%, which obviously reflects different dynamics when we go through categories and regions, but overall it really shows our capacity to increase the value and manage our portfolio.

Let me now go through the regional dynamics, and I will start -- I'm on page 10 -- and I will start with Europe. In 2016, as we shared during the quarterlies of last year, there has been a sequential decrease which has been driven by the change of model operated in early life nutrition for the Chinese market, and to some extent, some movement from the traders of the indirect channel from Europe to Oceania.

In addition, and as we commented in December, we have not yet stabilized the dairy business in Europe because Activia's relaunch has not yet made the turnaround of the brand. And I will come to that when I will talk about the fresh dairy category.

In Europe still the water performance has been very good. As confirmed this year again, a very healthy growth between volume and value with a positive mix, mainly driven by initiatives around Aquadrinks, and showing a very good job from the team in a competitive market.

Finally, medical has delivered a very solid growth performance in Europe.

Moving to NORAM and CIS, 4.6% growth for the full year on a like-for-like basis, which reflects a very solid momentum in NORAM and a very resilient model in CIS.

Starting with NORAM, as you know, we've been able to reignite the growth of the category and, despite a more competitive market, thanks to very solid fundamentals and all the work that we've been doing behind innovation and behind our brand to be closer to the consumer, we have gained market share sequentially during the year, and we are now at a record high of more than 37%.

In CIS, we have -- we continue to have a very difficult context, and despite that, and despite a high negative volume behind the dairy part of the business, we continued to post positive growth, mid-single-digit. This is linked to a positive value impact of price, but, and most of all, of all the work that has been done towards pushing to our value-added portfolio.

And I really want to take this opportunity to thank the team in CIS because it has been three years that they've been living in a very tough environment but they've been delivering consistently behind the profitable growth journey of this region.

In the rest of the world, if I move to the right part of the chart, we have a strong growth of 6.7%, and this despite the transition of Mizone in China. The region continued to rely on strong fundamentals, especially the way we are building our direct platform in China that I will comment in a minute, but also medical has been very strong in these regions.

Waters outside China has continued to be very strong, and then what you see as a sequential slowdown since Q2, it's mainly due to the macroeconomics of LatAm and especially Brazil, which is an important market, and where consumption environment is becoming very tough for dairy especially.

Moving to the category dynamics, for each category you will see that we've put both the sales growth and the margin improvement because we think that when we are looking at being more balanced in the way we are running the profitable growth model of Danone, it's important to look at the combination of both. So for each one I will go through both the growth and the margin.

So starting with fresh dairy, on the left part you have a growth that is 2% for the full year on a like-for-like basis compared to a growth that was 0.6% in 2015. And on the right, you have the margin improvement that has been strong and that has been fully in line with the mid-term commitment that we took.

So starting with the margin, for the full year 38 basis points improvement which is driven by continued efforts to improve both on our portfolio management and on our efficiencies, and has led to a significant gross margin improvement, behind which we have reinvested behind the brand, and led to a full year margin improving 38 basis points.

On the top of the chart you have 82 basis points since 2014, on a constant exchange rate base, which really relates to the commitment that we took to improve cumulatively the margin by 200 basis points between 2014 and 2020. So you can see that the 82 basis points improvement is showing that we are fully on track and well progressing on this journey.

Moving to top line, on the left part, as we shared in December, the European dairy performance has not improved in Q4. Sales trend has been impacted by Activia's performance and aggravated conditions in Spain. Basically at this stage Activia sales results have not progressed and we have not been able to turn around the brand as a result of the relaunch.

We have overestimated the speed of the turnaround, and given the ambition of the transformation, we know that it will take time. The direction is the right one. There are some adjustments that we will do in the short term, but overall it's a major transformation that we need to do in a safe way, and that will take more time. And we will come to that later.

Overall the transformation is in progress and, as you see, we've been able to deliver fully on the other part of the commitment, which is on the margin.

Just a few words on ALMA, with negative volumes that illustrate also that we have some markets like Brazil that remain fragile, and that's important for the outlook of 2017. So maybe moving to that, regarding the outlook, for 2017 there is no change in the agenda or direction. Dairy will continue to progress on its profitable growth agenda. We plan for the year a modest growth in sales, probably close to what we had in Q4, with a start of the year where growth will be slightly negative.

In this context, we obviously continue to reinforce the model, optimize our portfolio and make sure that we move towards margin improvement.

Just to conclude, with the right investment, with the right decisions, with the continued transformation of our marketing model -- and Emmanuel will come back on that -- we have what it takes to make it happen. The direction is the right one; we just need to remain focused and disciplined on the pace at which we are delivering on this major transformation.

Let's move now to Waters. So on the left you have the top line growth for the full year that is 2.9% on a like-for-like basis, but if we remove the transition of Mizone in China, the growth has been more than 7%. It's a growth that is very healthy, both in volume and value, that continued to be driven by a positive mix through the development of Aquadrinks, and that has been strong on all our platforms.

I mentioned already or I commented already on the European growth. Maybe just to say that ALMA, excluding China, was very strong and well balanced between volume and value. And one word on the US where we are developing and expanding evian that is growing very strongly, and of course based on a high value-oriented portfolio.

Just one word on China where we continue the transition of Mizone, and we are focusing on two things: the first one which is to protect our market share in an environment that is more and more competitive, and the second one is to protect the profitability of this brand. And so for the first one, we have been able to stabilize the market share around 5% at the end of the year, and this is in a category that is continuously disrupted with more and more competition that is coming from small high value-added brands that are not sticking to the shelves, they have short lifecycles, but they are disrupting the category.

On the growth, what we say in Q3 is still valid, meaning that we are not counting on Mizone growth for the quarters to come, and we will continue to make sure that we are protecting the brand and the market share, and we remain convinced of the potential of this market for the mid and the long term.

On the margin, we have been here as well delivering a profitable growth equation, and this despite the very unfavorable mix that has been created by the Chinese transition. This is mainly again given the fact that on a structural pattern we are improving the value of the portfolio and continuing to work on our efficiencies, and it's also the big work that has been done by the Chinese team to make sure that we are protecting the profitability of Mizone through big saving plans.

In terms of outlook for Waters, for 2017 we forecast solid growth, a growth that will be unbalanced between the first part and the second part of the year, still impacted by the Chinese transition.

So just to conclude on water, we will continue our agenda around developing healthier hydration opportunities for people in this great category, continuing to rely on a strong innovation agenda and strong activation of our great brands.

Moving to early life nutrition, starting on the left with the top line. So we have a full year growth at 3.5% on a like-for-like basis. If we remove the impact of the indirect transition in China, the growth is mid-single-digit. In all our platforms we continue to invest to reinforce our position.

One important part of the current and future growth is to continue to develop differentiation in the portfolio, and I have been sharing with you about tailored nutrition in Q3. Tailored nutrition is an important part of the growth currently and moving forward. It's about products that answer specific needs for babies as opposed to generic milk breast substitute. It's now around 10% of our portfolio and it's growing more than 10% in 2016.

A few words maybe on Chinese transition, although I will mostly repeat what we shared in Q3. As you know, the regulatory changes have accelerated on the e-commerce, and this has speeded up the transition of the indirect business, which has made the traders starting to rapidly destock in the channel and it's impacting our sell-in.

This transition will continue to create some volatility in 2017. It will continue to impact the overall growth of early life nutrition until the transition is completed and until the regulatory changes are in place in 2018.

So as a result of that, the indirect sales have decreased in 2016 and will continue to do so in 2017.

As you know, we are keeping all the energy and focus in building the sustainable part of the growth model for China, which is on the direct channel, and we are growing strongly double-digit. We've been able to improve our market shares in MBS, and we have had another record there and an excellent performance during the 11/11 event.

So overall, all the foundations are in place. We are continuing to focus on making sure that we build this sustainable growth model, and in the shorter term there will continue to be volatility.

In order to build our agenda, we are relying on very strong assets which are our brands and our number one position on the e-commerce.

In terms of margin, you see very significant improvement in the margin like-for-like of 167 basis points. This is made of both structural and contextual elements. On the structural part, the growth and the favorable mix impact have of course been drivers of improvement. And on the contextual part, it's basically mainly two things which we discussed at the end of 2015, which are the reverse effect of the cost in 2015 that we had related to adaptation plan in Dumex, and also a cost that we incurred as a result of a fire in our plant Cuijk in the Netherlands.

So that's it for 2016. One word on the outlook. So on the outlook, as I mentioned, the volatility driven by the conversion of the indirect channel for China will continue to impact the performance. From one quarter to another we might see some volatility, and we will start the year with a Q1 that will be a low to mid single-digit positive.

Finally, for the category medical nutrition, another great year and great performance on both growth and margin development, which is, if I talk about growth, across the board on all regions, driven especially by the pediatric segment behind the brand Neocate but also by the adult tube segment, and a very strong improvement in margin on the basis of the growth and the positive mix. So overall again medical nutrition is fully, especially also given its level of profitability, contributing to the profitable agenda of Danone, growth agenda of Danone, and the value creation for the future.

So that's it for the category dynamics. I will now move into the other indicators, and I will start with the margin bridge on page 16 for those who are not in the room. Danone has delivered a very strong increase in margin, as I mentioned earlier. We are reporting 87 basis points improvement in margin, which again demonstrates significant progress in the way we are working to strengthen the model in an increasingly volatile environment.

So if I go through the bridge from left to right, basically positive expected scope effect which is related to the deconsolidation of Dumex for 10 basis points, a positive, slightly positive impact on currency which is 6 basis points and is the result of the mix of our different regions and businesses.

And that leads me to the important part of the bridge, which is the like-for-like important increase of 70 basis points, because you will see that it really illustrates the agenda that I mentioned in the way we want to make our model more resilient.

It comes primarily through a very significant increase of margin from operation which is around three elements. The first one is additional efficiencies for 50 basis points; the second one is about the way we are improving and managing our portfolio, which is bringing around 30 basis points; and finally, the favorable context of input cost which has brought 40 basis points of improvement.

Moving to the right, we have continued to invest significantly, 88 basis points, throughout the year in order to make sure that we were fueling the growth and the transformation, while also relying on resource allocation where we have been very careful not to go for tactical resource allocation. And in July we told you that we might decide not to allocate some resources, given the volatility and the transition of some markets, and H2 has been a bit less than H1 but overall we continue to reinvest.

In terms of investment, its major part is A&P. It's also salesforce across the categories, and of course product innovation and investment in recipe in order to make sure that we continue to have the best product and relevance of our recipe.

Lastly, you have the positive variation of others, 43 basis points. I am not coming back on that because it's the impact that I commented on ELN margin improvement.

Moving to EPS, so very strong like-for-like EPS performance which is again reflecting our commitment to ensure that profitable growth is flowing into EPS in a consistent manner. The 2016 EPS is at EUR3.10 and if we go through the bridge, we have a reported growth of 5.6%, which basically includes on the right, a negative currency impact of 5.2% and a positive scope impact of 1.5%, still related to the deconsolidation of Dumex.

And on a like-for-like basis, a very strong 9.3% improvement, which is the reflection of the combination of growth and margin that is flowing in a consistent manner into the EPS growth.

So this is again the illustration of the focus and the efforts that have been put behind rebalancing and strengthening our model, and in a context where growth has slowed down, we have been very disciplined in the way we allocate resource but also in the way we manage our efficiencies to ensure the right combination of both top line growth and margin improvement to make sure we deliver on our financial commitment.

As I mentioned in the beginning, another important part of the agenda is the free cash flow, and the free cash flow has increased in a very strong manner by 16.8%.

If I move to the indicators, basically on working capital on sales, what we said is that today we are really best in class in the way all the indicators of the working capital are delivered. We said also that given the mix of [geos] we will not be able to increase this very strong performance which is high negative level on sales, but that we would be very careful to maintain this level. So that's basically what we have done in 2016.

Then on the right side, the 4.2% CapEx on sales really shows our commitment on being disciplined in allocating the resource but making sure we are fueling our growth for the future in a proper manner.

Just one thing on the 2016 CapEx. Mostly it has been on early life nutrition increased capacity, and we talked about that, and it has been also about development projects for Africa.

One word on the change of net debt. So if you see the bridge on page 20, basically the debt -- the net debts are slightly decreased by EUR300 million. The financing of the acquisition of WhiteWave has obviously not impacted this bridge because, as you know, the bonds were raised, but at the same time they have been invested in money market funds. So this is offsetting at the net debt level and you don't see any impact of that.

By the way, just one word on that. When or if we were to raise the debt today, the conditions would be less favorable than when we did. So it's important to just say that the timing that we've chosen, which was early November, was the right timing in order to maximize and optimize the financial cost of this debt.

So basically, back to the 2016 bridge. The major impact was really the dividend payment of EUR1.1 billion in cash, but there is nothing specific to comment other than that.

Just to say that, because I just mentioned WhiteWave, of course, as I said at the beginning, cash is very top on the agenda, and we will make sure that we are both delivering the deleverage according to the commitment and also making sure that we keep the full flexibility for financing our growth.

The balance sheet, very quickly it's very solid, there is no major change compared to last year, so I will not make any specific comments, which brings me to the dividend. The board has decided to propose for the next AGM an increase of the dividend to EUR1.70 per share, which is an increase of 6.3% versus a reported EPS growth of 5.6%, which really shows the confidence we have in the ability of Danone to steer its agenda of profitable growth for the future.

Just a few words of concluding remarks before Emmanuel goes through the progress of our transformation journey. Back to 2016, we have continued to make major progress in rebalancing our model of growth, in increasing the resilience of the model and make sure we were delivering behind our commitment of profitable growth leading to a very strong like-for-like EPS growth.

We have been very disciplined and we have been very focused on our mid-term destination. We have made sure that we were not pushing for short-term tactical growth at any cost, and as I told you many times, it's back to the pace. The pace is central to our agenda. We are evolving in more and more volatile environments. We have a transitioning market and we need to make sure that we continue to focus on the direction and on the plans that will take us there. We need to drive this journey at the right rhythm and not at the highest speed possible.

So to that extent, the context will not change. We will continue to face a volatile environment, and in order to be able to continue to increase the resilience of the model we have decided to decouple the mid-term growth agenda with the short-term efficiency agenda, and we will link them through our renewed resource allocation process, which as delivered in 2016.

This will lead us to first secure the profitability of our model and make sure we have the fuel to invest behind the growth. And this will ensure and continue to ensure the relevant combination between growth on one side and margin on the other side, to make sure that we secure our growth delivery of EPS.

In terms of outlook for 2017, I'm talking now at current perimeter. We will come back with an adjusted guidance once the transaction of WhiteWave is closed, but coming back to current perimeter, we do expect a moderate top line growth with a low start of the year, which is basically the result of what I described for each of our categories. And we target to have an EPS recurring growth like-for-like of more than 5% on a like-for-like basis.

This will obviously be unbalanced between H1 and H2 because of what I just said of the lower start of the year.

Thank you for your attention and I will pass the mic to Emmanuel.

Emmanuel Faber - *Danone SA - CEO*

Thank you Cecile. Good morning everyone. I'm very pleased to share with you our progress report after such an eventful 2016 year. And let me start by reframing what we mean when we are talking about the transformation journey that Cecile has just described.

What it is about is traveling forward through the revolution that will lead people to eat and drink differently, better, in the future. And we started this revolution by writing a manifesto, that was a couple of years ago. A bunch of us and then crowds of people in Danone and outside of Danone basically described what they believed was a foreseeable sustainable future for an industry like food and water in the incredibly complex world in which we are entering.

To start this journey and guide this journey we planted a tree. This is our tree. This is the alimentation tree of Danone. It has roots that are about ingredients, trusted origin, stewardship of our water resources, zero net CO2, a number of very important components for the trust and the choice of consumers tomorrow, but also for the ability to operate with governments, NGOs in the again complex environment in which we are.

Then it has a trunk, and this trunk is basically helping the growth, the development, the elevation of our brands, through three very important principles. One is offering a community relevant proposition for our brands. The second is a superior experience, whether it's about service, whether it's about product. The third is healthier choice, and this is where Danone is really making a difference. And this allows the leaves that you see on this page to be elements, very important topics, of health topics around the world, from early life to the end of life, that our brands will carry as a proposition to our consumers.

We believe that in the future, only the brands that will be the fruits of this tree will be able to survive and to thrive in the new environment, five, 10 years from now.

Then we started sharing this and we started working with thousands of people at Danone around the world creating solutions that are basically aligned with what I just described.

The fundamental basis for us to be able to do this is that we have a portfolio that is ahead of the curve; a portfolio of businesses, of categories, that you can see here are among the fastest growing in the world. Anywhere between 3% and 6% over the last five years global retail-sales value growth for our categories.

In these categories, as you know, we have leading positions. And this is where and how we can change the world through our brands. And very soon we will, hopefully, add the categories of WhiteWave which, again, are absolutely on track with this vision of the world. And where WhiteWave has a number-one worldwide position too.

So, let me go back for a minute on 2016, in this progress report. In 2016, no doubt, we had a number of challenges behind what has been a robust performance. These challenges are partially outside and partially inside and internal.

Outside, most of them, starting with market volatility; Cecile mentioned that. I would like to restate again that, in particular for Brazil and in particular for China, these elements will continue; in China when it comes to water and ELN transition out of indirect sales on Internet in 2017.

So, these challenges we had last year we will continue to have this year, creating volatility in our growth in these categories.

The next one is one that we have no surprise about. We told you that already two years ago inflation will go back. Dairy inflation will go back. It's back. It's been back at the back end of last year. It will be this year too.

The third one is, in a way, outside of our control when it comes with the aggravated consumer conditions in Spain in the fourth quarter of this -- of last year. But they are, in a way, also self-injured injuries -- inflicted injuries when it comes to significantly lower turnaround of Dairy in Europe, as the one that we expected, and we shared with you even through our Q3 release of numbers of last year.

The essence is we expected Activia's re-launch to be much more impactful than what is has been. As Cecile said, tremendous work has been done already. We've found a lot about that brand by revisiting entirely the metrics of the brand over the last 12 months really. But we missed a few very important points.

So, effective immediately, we will change the management of Dairy in Europe. We need to change the way we work. We will change the management of Activia, because we need to adapt the brand much quicker and thinner to the reality of consumer demand right now.

And we will change the organization. We have made a decision to bring our global brands in Dairy under the responsibility of regional VPs, therefore, suppressing one element of complexity in the organization; getting closer to markets; faster in the discussion between markets and global. And, in many ways, simpler in the way we proceed and we conduct the needed adjustment to the brand parameters.

In the very short term we will rework on the visual identity; on the communication of the brand. We will accelerate some innovations that were scheduled for the back end of the year. And we are bringing them closer in time; very exciting new innovations on the Activia brand.

And we are going to heavily invest in activation. For years activation programs have worked well on Activia and this is how we will address the short term.

Having said that, I don't have a magic bullet. I couldn't say what and shared what Cecile says about a fundamental rebranding of Activia and tell you that after three months of disappointing results I have the magic solution to bring it back to 3% growth; and, by the way, I have the magic solution to bring Dairy Europe back to growth in the very short term.

Other than doing tactical allocations that would boost sales we don't. And so we won't. And the result is what Cecile said. We will start Dairy overall negative this year and Europe will continue to be negative for some time. We won't see any significant results on the rework of the Activia re-launch before 2018.

So, this is the framework of the elements of guidance that Cecile has shared with you for 2017, when it comes to Dairy Europe.

Yet, a lot of successes last year; we re-igniting -- re-ignited the growth of our US dairy business. I have either to say that in a global environment in the US where we've seen in the second half a slowdown of growth in the food and beverage space. I think the Q4 was about zero or zero-plus flat for the overall food category in the US.

We've been able to grow, as you've seen, in our numbers. We've actually been the one growing in the category with record market share obtained by our teams in the US and in North America.

We've also built the resilience of our Russian operations. I remember, for those of you following us already in 2010, 2011, we bought Unimilk at a time where the margin of the company was zero. It's now into double digits.

So, we've been absolutely on time delivering this, in an incredibly difficult environment in Russia. Again, a tribute to the Russian and CIS teams, but also to the power of our brands including, by the way, Activia, which, both in the US is now gaining share back after the re-launch and in Russia, by the way.

Generate strong and profitable growth in medical nutrition. You remember our conversations about is it part of Danone? Is it not? It's fully part of Danone, of our tree, of our mission. And it's accretive to our equation. We have seen very strong and very profitable growth for medical nutrition in 2016. And we expect that to continue in the future.

Our Waters colleagues have been able, outside of the transition of Mizone in China - and, by the way, Mizone, with 5% continues to be one of the top-three individual brands in the beverage space, in BS space in China - they have been able to seize new consumer trends which, as a result or resulted, into the mid- to high-single digit growth that we had in water outside of China across geographies last year.

Finally, we've been working hard in China for ELN to build our direct-import model through mum and baby stores, in particular. Very successful growth. Growing now to the point where -- you remember the times where Internet sales were 75% of our total business and then two-thirds only. Right now we are talking about half of our business in China, thanks to the development of our regularly imported, direct business in China.

And, as Cecile said, we've been able to re-expand our tailored-nutrition business which is truly speaking for the mission of our brands for ELN and for babies after the Cuijk factory fire that we had two years ago. So, we restart that. And this will be a significant engine for growth in the future.

Finally, I couldn't finish this short reframing of our performance last year, without saying that we and I am proud and pleased of the way we've been able to manage our equation; delivering a very strong margin increase in a context where only the discipline, only the power of the brands that we supported as opposed to others, and with a few exceptions, allowed us to deliver and report today.

Now, what's going to come next? Definitely I see 2016 as a year of significant progress. It's a progress towards what remains entirely our objective, shared with you already for two years, by 2020 being able to deliver strong, profitable, sustainable growth.

We started that journey two years ago. And we've been paving the way to profitable growth to start with. And, clearly with the set of numbers we're releasing today, I think 2016 has been no exception to that with a more complex sales environment. But an ability to allocate resources between the short, mid, and long term that led to the numbers that Cecile has shared with you.

What comes next is soon WhiteWave. WhiteWave is our next phase of transformation in the journey towards our revolution, with two very clear matching corporate missions for the Company, as you know. And this is a chart you've seen already in July. It hasn't changed.

Another chart you've seen in July, hasn't changed either, is that WhiteWave will help us strengthen -- at that time I said fast-forward the writing of our transformation. This is still absolutely the case by, on the left side, bringing the entire sustainability and sustained growth of both dairy and dairy alternative protein-based fermented product.

This is where Danone has a fundamental expertise and where WhiteWave has a fundamental expertise. And this will, on the right side of this chart, double the size of our business in the US.

We'll be entering the top-15 league of the largest companies in the food and beverage space, but by far the fastest growing, in the environment that I just described. So, you can expect a superior growth by this combined business in the coming few years in the US, compared to any other portfolio of food and beverage companies there.

And, finally, as you know, we are creating a very significant partner for our trade for customers; being the largest retail refrigerated-dairy company. The impact of WhiteWave on the Danone model, again shared and reconfirmed today, is one about superior growth categories in a stable choice of geographies.

And, in the current environment, I can say I'm happy and confident about our choice to bet on the US and North American market, primarily, with extraordinarily strong potential of development in Europe based on the Alpro business of WhiteWave. And our ability to scale it at the global level given our geographical footprint. That will bring an extra 0.5% to 1% additional top line to the Danone model.

Significant synergies, on which we will come back at closing, which, as you know, will allow us to be accretive on margin year two. And it will be accretive to Danone equation with a strong double-digit EPS accretion on the run rate of synergies that we've identified.

So, with all of this, we have decided, I have decided, that it was time to create the organization for Danone that will take us to our next orbit in this journey. The next orbit is about going from 2017 to 2020 to deliver what's going to be beyond 2020; the next orbit.

And this organization starts with something that we have shared with you already. We've been extremely active putting together in a seamless, steady manner, One Danone organization.

One Danone is an organization of 30 locally rooted organizations that serve the business, serve the license to operate and the growth of our local businesses, by putting together unparalleled wealth of experiences.

Expertise, efficiency of HR, of finance, of general secretary, corporate affairs, government affairs, communication, sustainability, legal, ISIT, that are going to support, that are supporting, the growth of our businesses in 30 different clusters of geographies.

We started this as a project. And I remember some of you who know Danone well told me two years ago -- are you really going to do this? Are your teams prepared to do this? Is your governance going to let you do that? Because this is so much different from the Danone that we've known.

And I can tell you, two years later, we've done it. All clusters are live as we speak. All of them are live. It's been done in a seamless, budget-efficient manner. And it's only the starting point of our local efficiency. But I can tell you that, in the current context, I look at this as an incredibly well-fit backbone for the future of businesses.

We are not about globalization here. We are about making sure that people can make the relevant decisions, given the relevant political context, the relevant religious context, environmental context, NGO, civil-society context, that we would not be able to do if we had a big shared service of 5,000 people in Geneva.

So, this is the Danone model of the future. And this is the backbone on which we are building now the next layer. That next layer is a new team. On the basis of these 30 clusters of geographies, this backbone, we are creating a grid of regions which are fully aligned in terms of geography scope; which are led by people that we are not going to recruit. They are already there.

They are the regional VPs of each of our four global categories. But we have now aligned the definition of each region. And we have given, we are giving them, new roles. On top of growing their category in their region their new role will be twofold.

One is: they will sit with their colleagues in their region to look after any relevant agenda of efficiency or growth that can be found in that given region. And, second, they will form a Danone Executive leadership team which will make global Company-wide decisions at the regional level.

So, this is a team of people that will make Company-wide decision, but they are at the regional level, not a global level, which means that we are pushing down a number of corporate decisions at that level shortening the circuits for decisions. Making these decisions at the best point of leverage much closer to markets and to consumers as if, again, we were all making decisions from Paris or from Schiphol, our second big headquarters, operationally.

And that allows us to basically do a third important move in the next-orbit organization; a tighter COM EX team. I've decided to shorten my team from 12 to 8, 30% shorter, which will be time, cost, and team effective in an unparalleled manner. And which will allow the COM EX to work as a much tighter team on strategic topics to move the Company forwards.

And the result is that there will be a strong delegation, strong dialogue, in these three levels well identified of decision-making at Danone. Concretely, that also allows us to create two new very important roles for the future.

Back to this tree. There is one role on the bottom called EVP Resources Efficiency, which will drive transversal-spend efficiency, balancing the short, the mid, the long-term efficiency agenda, integrating operations into our cycles visions, so all our manufacturing, into this vision.

And, most importantly, providing the resources, the ingredients, the sourcing, the routes, for our manifesto brands. This is the bottom part of the tree; gardening that.

And, above, a position of growth and innovation that will gather together seamless cooperation, processes, among all the top line and innovation functions, which will provide a framework for category growth and innovation across the Company and into the categories.

And which will identify and drive transversal-growth opportunities but also beyond existing categories, opportunities of growth. And, therefore, taking care of our brands and of the leaves of our Alimentation Tree.

These two very important roles at the Executive-Committee level, functions, will allow us to decouple the midterm growth agenda of Danone. You heard me say this is a midterm, and it will take time, revolution. With the efficiency agenda, which starts immediately to its next level, which during this next-orbit journey to 2020 will allow us to deliver consistent EPS growth.

Let me take you briefly through the two curves. To start with, the blue curve, of long-term growth. We are already paving the way of the Alimentation journey I described; three examples on these charts.

The Danone pledge in the US for more naturality and non-GMO. Again, it's not about 10 years' time. It's about at the end of this year, already, at the end of this year, after one year and a half of hard work, three of our brands, top brands by the way - Danone, Oykos and Danimals, our kids brand in the US - will be entirely out of the GMO system. Entirely natural. That's what consumers want. And we will deliver that.

Evian; you've heard us say by 2020 evian will be fully carbon-neutral. So, wherever you enjoy evian, in the US, in Japan, in China, you enjoy a brand that has paid and that has replanted trees to ensure that it's carbon-neutral, beyond everything we do about reducing our direct impact on the -- on CO2.

Another example; our commitment that allowed us to join the FTSE4Good Index on early-life nutrition. We have pledged that breastfeeding is not a risk, as some of our competitors are continuing to highlight, in their charts that they share with you. It's not a risk to our business. It's our shared responsibility to ensure that breastfeeding grows.

We want to be ourselves disruptors in this, because this is a reality that we need to take care of, if we want to be stewards of a business that will continue to sustainably grow in the future. So, that pledge was issued on June 6, last year, and it's now rolled out on a global basis.

Another trend is about the proliferation of smaller brands. We are running big brands, so, what to do about this? First, transforming our big brands, in the way I've just described. But also a few things that we've done.

Michel et Augustin is now part of the Danone, or, closer to the Danone family. We have, as you know, announced 40% acquisition of their capital. We are helping them to grow. And this brand is exactly working in the new way of marketing that I just described.

When Starbucks was intrigued by some of their cookies, instead of just sending the samples that they were asked to do, they both flew with the team and with all the samples to Seattle overnight. And they offered a coffee and they asked for a coffee to Howard Schultz.

They actually asked the whole Internet community to support them into getting that coffee with Howard Schultz. So, Howard's news flow was entirely fed and overwhelmed by contacts, by Michel et Augustin fans, requesting that he should meet with the founders of the brand waiting at the bottom door of his office in Seattle.

And now these guys, very small guys, they are in 10,000 shops of Starbucks in the US. And they did a better job than the job we did with Starbucks five years ago in our strategic partnership. So, we need to learn, and we are learning with these guys.

So, in essence, we are taking all the values on the left that you see on this chart; the consumer values, the long-term trends. And we are making them a reality, gradually, through two things that you see here.

On the bottom we have incubators that are able to bring us these new ideas; bring us companies' brands that work differently inside and outside of our Company.

And, on the top side of this chart, we are creating under this function of growth and innovation that will -- that Paco Camacho will lead for us, a new Growth and Innovation Board that will encapsulate R&D, Marketing, Sales, Digital, all together as a seamless process. And inviting cycles and operations to deliver the resources, the ingredients, the solutions, that consumer will be willing to transform our brands, going forward.

I think Danone is uniquely positioned to get there. You have all the values of our trees that I've already described, but there is more. Two things. One is consumers are requesting, you are requesting, your kids will request, more transparency, more traceability, more fairness for brands. More ethos, in many ways.

And to address this in a very strategic way we have decided to create a partnership, actually a unique partnership, with the B-Corp B Lab movement that we signed a year and a half ago now. So, Lorna Davis, our Chief Manifesto Catalyst, sitting on that Board, on one side. And we are testing with them what does that mean for a multinational company to work in a B-Corp environment.

Only a few significant companies are part of the B-Corp movement today. Most of them are very small start-ups. But you have very inspiring brands like Ben & Jerry, like Patagonia, like Happy Family for Danone and we want more.

So, for instance, we accredited Danone Spain as a B-Corp. In a way, the oldest Company, the founding Company, the core of the Danone history 100 years ago now, is now a B-Corp accredited. And is today the second-largest B-Corp in the world.

But we'll do more. As you know, when we close WhiteWave we intend to encapsulate the North American business, combined a $6 billion company, into a public-benefit corporation in the US. It will be 10 times bigger than the next-biggest benefit corporation in the US.

So, we are really paving the way towards the transparency and the fairness of our brands through, not only the brands, but the companies. People want to pierce the corporate veil. And this is what we are doing with the B-Corp movement here.

Another example is Facebook. I am very proud, pleased, to say that under the strong stewardship of the top management of both side, Sheryl Sandberg being herself involved in that, we've been the first FMCG large company to adopt Facebook at work, now renamed workplace, as our collaborative internal-communication system.

So, we now have nearly 50,000 people at Danone connected by end of this semester, 50,000 people - 7,000 users every day. Seven working groups collaborative -- 700, sorry, working groups connected to collaborate, network, and design the revolution that I'm talking about within Danone.

The other curve is the green curve, the accelerated efficiency. We have decided that it was time for us to maximize our efficiency on the back of the very powerful backbone of One Danone now.

Thirty different clusters geographically. The grid, unified and aligned grid of our regions, we believe we now can ambitiously roll out a program which will allow us to buy better, to spend better, to work better, which is entirely focused on the scope of professional services, sales and marketing spending and operation spending.

We expect that program to generate EUR1 billion of savings by 2020. Actually buy better, spend better, and work better go together. They go together and I'll give you three examples that we've already started.

One example is in 2016 we moved from 34 travel agencies around the world to one. That allows us to travel in a more efficient manner, more coordinated manner, safer manner, because we know when we have people on flights and not now, and where they go. And the most cost-effective overall for everyone.

Another example is for the first time last year we organized making sure that we are sharing 300 primary-transportation routes in Europe cross-category and with outside partners to make sure that we don't have back-empty overhaul trucks. Or that we maximize, basically, the use of the trucks of our transporters. Just on this one there is a EUR10 million saving on a year.

Another example is about digital. For the first time last year we've piloted with Google and Facebook a joint-business plan that will allow us with digital media now accounting for more than 20% of our total media spend, to be planning much better. To be more efficient. To be more effective in total and to generate a different kind of discussion. With actually all the suppliers when we address them this way, which is beyond the transaction, a long-term strategic relationship with the key suppliers, providers, that we will choose for our business.

This program is actually encapsulated into the efficiency -- resource-efficiency role that I described, which has to be seen as a seamless but distinct horizons, resource-efficiency work. So, the core horizon of procuring is, of course, about the short term. The core horizon of our global-procurement organization, with the new Chief Procurement Officer role created, will be the short and the mid-term.

And the cycles and operations functions that we created two years ago will be entirely focused on the mid and long-term transformation of our operations. And our entering into the [circular] economy. So, efficiency is not just about the short term. Sustainability is nothing else than the efficiency of the future. And that's what we are creating with this very important function.

So, the mix of both will allow us to deliver what is on this chart again, which is decoupling the short-term efficiency and the mid and long-term growth, by ensuring two very important things; consistent EPS growth and fueling our growth model with the savings that we will generate through the efficiency programs.

I'm very confident that the mindset of the leadership of this Company, the mindset of its middle management, the organizational enablers that we've put together, is clearly aligned to deliver this agenda.

And, on top, I would like to say that the Beyond Budget small drawing that you see on the bottom-right of this chart, which is the process whereby we've suppressed our allocation of budgets every year

and where, from the vision, we are deriving a three-year horizon plan that translates into a quarterly review, with a 12-months rolling horizon of planification for our resource allocation, is exactly what we need to link the two curves together. And to deliver the right balance of EPS growth and growth-fueling for the future, which is the EPS of today, and the EPS of tomorrow.

So, to finish with the same charts as Cecile. Because of all of that, because of our very robust performance in 2016 with this transformation going on, these two new roles, our organizations, I'm absolutely confident about the guidance that Cecile has added to our transformation journey towards the same objective of strong, profitable growth by 2020; of consistent EPS growth on that period.

I would like to finish by this sequence, which is a 30-second sequence of screenshots of what people at Danone are sharing every day from our Facebook at work, our workplace, collaboration across populations, across generations, across functions. I want to share this with you because I think this is how Danone will succeed in the future, going through all the political, religious, regulatory, tariffs barriers.

This is what makes the Danone network of people unique in this world. This is, in many ways, also my gratitude that I want to express and my pride of leading the journey with 100,000 change-makers. I'm proud and thankful that by their incredible passion, their hard work every day, they are providing great, wholesome food and water, which every day are better for our planet; better for our health.

Thank you.

QUESTIONS AND ANSWERS

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Thanks Emmanuel. Thanks Cecile. Time for question now. I think we have a couple of questions already in the queue. If you're okay we're going to start with one on the line, on the phone, and we switch to the room just after if any questions. So, I think we have a question from Warren. Warren, if you hear us clear and loud can you start please.

Warren Ackerman - *SG Securities - Analyst*

Yes. Hi Regis. Hi Emmanuel. Hi Cecile. I hope you can hear me okay. I've got a couple of questions.

The first one on the savings, the EUR1 billion of savings, can you talk about exactly where in the SG&A those savings come from? Maybe the phasing of those savings? And do you expect anything incremental to drop through to the margin, or is this just to support the existing midterm margin plans that you have? That's the first question.

And then, secondly, a question for Emmanuel. It's more of a philosophical question about growth versus margin. I mean, you made quite a compelling case about all the things that you're doing, Emmanuel. But I mean, frankly, we still haven't seen volumes for quite some time and if anything, the momentum seems to be going against you.

I mean, you've got some very big brands like Activia, I think over EUR2.5 billion of sales and Mizone, EUR1 billion of sales. Isn't the fundamental issue that millennials don't want big brands they want smaller brands? I mean, you talk about a new marketing model, but how do you actually turn around some of these big brands to make them more relevant? And how quickly can you do that?

Thank you.

Emmanuel Faber - *Danone SA - CEO*

Thank you, Warren. On both elements I think we will probably have further conversations on the savings. They're coming, as I said, essentially on professional services, media spends, logistics.

So, they are all on what we call indirect spend. So, basically, spend that don't go into the products that go to the consumers. So, it's not about our ingredients. It's not about our milk, our plastics, that we already address in many ways both in terms of efficiency and sustainability. It's really about the spend of the Company as we work together.

We expect to balance the allocation of the savings as they gradually come into place. And this will be at the very back end of this year and starting really in 2018, 2019, and 2020. We expect to use them in a way that will provide what I said, which is consistent EPS growth, being really the bottom line on our commitment.

And there will be, and there may be, a different level of reinvestment or margin accretion depending on the opportunity that we see to spend that money against appropriate, sustainable, growth opportunities. Which links to your second question about growth.

Yes, we see everywhere in the food and beverage space smaller brands being preferred by millennials. If I take the example of Activia we've actually, through the campaign, gained on millennials. We've actually gained on more senior people, in a way. But we've lost on the core of Activia users, which 20 years ago were 30-ish consumers, and today are 50-ish consumers.

And so this is exactly the balance that we need to find, modernizing the codes of communication of the Company, of the brand, including packaging, including digital. But making sure that we do not lose the core users for the sake of going after the -- what will be hopefully the cohort of users of the next generation in 5 or 10 years from now.

And this is true for many of the food and beverage brands. We simply have Activia in a very specific situation that tracks back into a number of years in the communication model. And faced into a situation in Europe where consumption continues to be not what we would all hope. And it's not that we count for a different one. But that's where the brand is.

So, I think the level of ambition of transformation that we had was exactly answering your question and your concern. But, in the same time, was too high compared to where consumers are today, in particular, in a couple of big geographies for Activia in Europe.

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Thanks Emmanuel.

Warren Ackerman - *SG Securities - Analyst*

Okay. Thank you.

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Thanks Warren. Switching to the room here in Paris if there is any question. Yes. Can we give a mic, Caroline, to Vincent?

Vincent Baron - *ODDO & CIE - Analyst*

Yes. Hello. Just to follow up on the last question, so your EUR1 billion saving program, is it improving your former guidance of 200 basis point margin improvement until 2020? That's my first question.

Then can we have also some color on the margin trend in 2017 in dairy and early-life nutrition? Will you have any margin improvement in these two activities?

The third one, quick one, could you give also--?

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Can we start on the first two already?

Vincent Baron - *ODDO & CIE - Analyst*

--No. Just finish the last -- the -- have some color on the EPS growth for 2017. Will that come from sales growth, margin improvement, or something else?

That's my question.

Cecile Cabanis - *Danone SA - CFO*

Thank you. So, basically, on your first question regarding the margin-improvement objective we have not changed our agenda and our target, including the midterm target, in terms of margin.

What we have said is that for the next few years we are deciding to decouple the mid-term growth agenda and the short-term efficiency agenda. The EUR1 billion will both be allocated to making sure we are fueling appropriately the mid-term and long-term growth.

And also making sure that we are delivering on our results, not that we are changing the way we want to deliver consistent EPS growth. Which is really the one that we are willing to secure in the couple next years.

Then in terms of margin target for next year. I think given what I said on what will be the profile of growth in the current environment that will be volatile. With some specific macroeconomics in Brazil and also some continued transition in China for both categories of Waters and ELN. We will have a moderate growth.

We will ensure that we are delivering on a like-for-like basis a strong EPS growth of more than 5%. So obviously we will continue to deliver on our profitable growth agenda for the Company. I will not guide more specifically as of now on the different dynamics.

But what is important to have in mind is that the whole purpose of our new process in terms of resource allocation, and the fact that we are continuing to work on our efficiency is really what you need to have as a securisation that we will make sure that we deliver the right combination of growth and margin to make sure we deliver the result and we continue to transform the Company.

The idea is not to go to the previous model. But really be serious on the destination we have put and presented and making sure we go there in a safe manner.

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Thanks Cecile. Back to the queue we have Jon on the line.

Jon Cox - *Kepler Cheuvreux - Analyst*

Yes, good morning guys, thanks for taking the questions. Jon Cox, Kepler Cheuvreux. Actually just coming back to the guidance, this at least 5% EPS growth like-for-like. I'm guessing you're excluding currency there and also are you including any dilutory impact from the scrip dividend?

And I'm wondering what your thoughts are on that scrip dividend. Because I think you did one a couple of years ago and then you decided not to do them anymore.

And then adding to that. You mentioned again that you still think double digit EPS accretion from WhiteWave in the full year. Assuming that starts April 1 and you've said again you expect it to be completed in Q1. Just for me for modelling purposes and maybe for some of the other people, is it really a matter of adding 7% plus 5% to get an EPS assumption for the year as a whole?

And then the second question is just because you are now focusing on cost savings probably more than the organic growth, are you acknowledging that you think that organic sales growth is actually decelerated at the Danone business model? Or is it really just to do with the slower than expected Activia relaunch and the issues going on?

Do you -- is there a structural issue with your business now and that's why you're starting to focus on cost savings rather than organic sales growth? Thank you.

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Thanks Jon.

Emmanuel Faber - *Danone SA - CEO*

Cecile to start.

Cecile Cabanis - *Danone SA - CFO*

I'll take the question on your model Jon and Emmanuel will take the last one. On the guidance of EPS it is a like-for-like guidance. So basically it's the reflection of again the combination of growth and margin from our standalone model. There is no other effect that are in account there.

For the scrip dividend, Jon you said we decided not to do it anymore which is not exactly the case. We said last year that we would do a cash dividend but that we would decide and keep the option to go for a scrip dividend, which is the decision that we have taken for this year. And which is fully in line with the agenda that we want to pursue including the deleverage of the Company and the fact that we leave the option for the shareholders to accompany us in the way they like in terms of the dividend.

For the WhiteWave impact on EPS accretion, as I mentioned, once we have closed the transaction we will come back with an adjusted guidance. So I will not be very precise on that just to reiterate that yes, the transaction will be accretive in EPS versus the like-for-like guidance that we've given. But I will not guide more precisely at this stage.

Emmanuel Faber - *Danone SA - CEO*

Thank you Cecile. So on your other question about the model itself. In a way Jon, I think it's important to keep the word decoupling. Because we have had in the past -- and we continue to have -- a significant productivity agenda that will continue.

And this productivity agenda at Danone has provided actually an even increased level of savings over the last couple of years. And that will continue. And we are talking about another layer of efficiency that for many reasons we had not addressed. And that I am convinced now that we can address with all the organizational and processes changes that we have put together since two years.

I mentioned One Danone, I mentioned Beyond Budget. I think these are really true enablers, realistic enablers, of an effort that the tribe of Danone managers three years ago would not have been able to either conceive nor even execute.

So we are here with a low hanging opportunity and I would not do my job if I didn't go and seek for this efficiency. And this is decoupled and this is why I think you -- the -- your question is valid but the answer is clearly no. There is no relation between the two, it's decoupled.

And I'm not suggesting in any way the speed at which growth will increase from where it is or where it was last year to what we call a strong growth. It may happen very soon or it may happen later.

What I was addressing was the gradual transformation within this growth of the marketing, innovation, brand model of Danone. And this will take time and we just want to recognize that it will take time.

If we shared the category growth with you, I continue to believe that in many ways this is an opportunity for Danone. Because the choice of our categories is ahead of the curve of future consumptions. And our organization was late on the curve on efficiency.

So we are just driving these two independent opportunities in a way which will be disciplined and which will make sure that we use resources for our business. Not letting them somewhere else where we don't manage and where we should.

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Thanks Emmanuel.

Jon Cox - *Kepler Cheuvreux - Analyst*

Thank you. Just--

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Jon we switch to other question. I think we have Alex on the queue is that correct? Yes.

Alex Smith - *Investec - Analyst*

Yes, hi, morning. A couple of questions on Dairy I guess. I wonder if you could just talk a bit more about the Q4 dairy trends you saw in Europe in terms of volume and price versus Q3. If you'd be prepared to give us a Q4 volume decline number there.

And then as we think about dairy going into 2017, I wonder if you could talk about how we should think about the balance between volume and price? Q4 volume is obviously down around the 4%. You talk about a steep rise in milk costs. So presumably you'll be looking to take more pricing.

Is it realistic to expect volumes to improve on the down 2% to 3% that we saw in full year 2016? Thanks.

Emmanuel Faber - *Danone SA - CEO*

So I'll take the first question. Europe overall, we expected to stabilize Europe as much as possible based on the swing factor of Activia in the course of the fourth quarter. As you've seen it did not occur. So Europe overall has continued to be in the low single digit negative; anywhere between 3% and 5% across geographies with some key geographies that have aggravated their consumption pattern in the category.

That includes mostly Spain where not only Activia but the overall brand situation has aggravated in the course of the fourth quarter. In particular, Spain is -- we're faced with a situation where Mercadona has become a very important driver of the codes of the category consumption across the food business.

We are working significantly with Mercadona, yet in partnership that still needs to be brought at its next level. Overall, our portfolio in Spain, for Activia in particular, has significantly aggravated after the relaunch, and so this is really a country in which Activia has been a swing factor.

France is another one where consumption in the category is subdued. We see -- we've seen in France continued deflation in the category in the fourth quarter in terms of price. Negotiations with the French retail are taking place as we speak. They are in the same vein as the previous ones, so this is barely good news for pricing. This is where we are today, and in terms of volumes, they've been negative too.

Then you have a bunch of other countries, but really these two ones are highlighting the way the category has, or our business in dairy in Europe has evolved in the course of the last quarter.

Cecile Cabanis - *Danone SA - CFO*

Yeah, so on 2017, it's basically what I guided to earlier, meaning that we expect an overall negative volume performance for Dairy in 2017. This is basically two factors. The first one is as I said, we continue to see deterioration in the macro-economics, mainly in Brazil, so Brazil is weighing strongly on the negative volume on the ALMA region. The second one is what Emmanuel mentioned regarding the situation in Europe and the fact that the stabilization of Europe will take more time, so we will still have in 2017 negative volume in Europe.

It's not however linked to what you said about the increase of milk price. The increase of milk price as you remember was always our working assumption. We always said there would be a rebound. It will come. The way to mitigate the rise in milk price, in some countries will be through targeting price increase, but basically it's countries where there was already inflation and basically the rebound is mostly Europe and NORAM and there we continue to work on our efficiency and the way we manage our portfolio for an increasing value and mix.

So, the volume is linked to what I said, but not linked to the milk price evolution.

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Okay, thank you. Conscious of time because we have other commitments. Just after we may go for a final one. I suspect it will be one or two as usual. I think we have David on the line.

David Hayes - *BoA Merrill Lynch - Analyst*

It's David Hayes, hello. Hi, can you hear me?

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

Yes, clear and loud.

David Hayes - *BoA Merrill Lynch - Analyst*

Hi, hi, just hello everyone. Just three if I can, just so I don't let you down. There are three questions. Just first on Activia, you talked earlier I think about the adjustment taking place in the short term. I just want to clarify whether that - and then going back to your guidance on the dairy profile through the year - is that adjustment in the short-term a resetting of the Activia price point in key markets, particularly Spain, given some of the comments you just mentioned?

If that's correct, can you just give us some context how you look at that price point differential to the private label alternatives and what kind of quantum of price resetting might be required in order to try and get that traction back in terms of volume market share?

The second question from me was just on the WhiteWave performance second half of the year. I guess, one, how close are you to WhiteWave currently in terms of understanding why maybe there's been this deterioration in some of the performance in the market that we're seeing with some of the data at least in the last six months?

I guess relative to that, can you give us a sense of whether that's short-term because of disruption and uncertainty and maybe postponed plans at WhiteWave that have this inevitable impact and that that therefore picks up next year? Or do you think there are other issues going on there that you think you will address once you get full control of the WhiteWave business? I'll stop at that, in that case. Thank you.

Emmanuel Faber - *Danone SA - CEO*

Thank you David. So, on the first question, Activia, I spoke about adjustments. I did not mean in any way price points. I meant product and communication. So, we are reworking the visuals as I said and we are reworking the communication. This will be live in the course of Q2 and by then, we will increase the promotional spend on the brand for activation which has been working in the past. Not as much as we would have liked, but which in many ways we've stopped during the Q3 and Q4 and in particular Q4 by focusing on the relaunch itself. So, we are readdressing and adjusting the brand, not the prices.

On WhiteWave, there is not much that I'm allowed to tell you. Two things though, in their Q3 communication, WhiteWave had highlighted the fact that their plant-based beverage business led by Silk, in the drink part of that business, was facing executional issues in a shift of brand positioning that started in August and September.

They also highlighted the fact that their executional difficulties and challenges in the Earthbound Farm Fresh salad organic business that they bought a year and a half ago, that's undergone a complete overhaul through an SAP implementation, they highlighted and they had highlighted before that this wasn't performing as well as they wanted, and therefore the rebound in sales and customer service level of that business in the Q3 was not the level that they were expecting.

So, that's what I can tell for the part that is public about their second half. For the rest, if you look from outside, there is a continued superior growth of their categories compared to the overall food and beverage category in the US. But we will be able to comment further on these short term current trading when we -- I will be in a position to comment. Thank you.

David Hayes - *BoA Merrill Lynch - Analyst*

Thank you very much

Regis Massuyeau - *Danone SA - Head of IR and Financial Communications*

So, thank you all. Thanks for people here in Paris. Thanks for all of you who attended the call this morning. Thank you.
