

Company Name: Reckitt Benckiser
Company Ticker: RB/ LN
Date: 2013-02-13
Event Description: Q4 2012 Earnings Call

Market Cap: 32,863.50
Current PX: 4568.00
YTD Change(\$): +689.00
YTD Change(%): +17.762

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 2.618
Bloomberg Estimates - Sales
Current Quarter: 2452.000
Current Year: 10080.417

Q4 2012 Earnings Call

Company Participants

- Rakesh Kapoor
- Adrian N. Hennah
- Heather Allen

Other Participants

- Rosie A. Edwards
- Jeremy D. Fialko
- Celine Pannuti
- Harold P. Thompson
- James Edwardes Jones
- Eduardo Santos
- Robert R. Waldschmidt

MANAGEMENT DISCUSSION SECTION

Rakesh Kapoor

Right. Are we ready to start? So good morning, everyone, and thank you very much for coming for our 2012 full-year results presentation. I have two people on the stage with me. I'd like to first introduce Heather Allen, who's been with Reckitt Benckiser for 17 years, with a very illustrious career spanning many general management assignments in category also. And now she's heading our global category organization, a job that she took over from me nearly two years ago and one that she's going to show the passion for our innovation as she talks about it later in the presentation.

I also have Adrian Hennah, who's obviously not very new to many of you people, although he's new of course in Reckitt Benckiser. When he came into the company in January, first day of January, I said, Adrian, you know, don't worry too much about the full-year results presentation. I'll lead with the whole thing, including the financial parts, and he very bravely but at the same time very worried looked on his face when I told him I'll look up to the financial side, also looked very, very worried. And I'm not still sure whether he looked worried because I would do such a lousy job at it or he looked worried because I would do such a brilliant job at it. But he's been brave nevertheless. And welcome to you, Adrian.

Right. So let's get on to the first topic, which is three key messages that I have for all of you. The first message is that we are making progress in shaping this business for out-performance in this decade. We are shaping the business for out-performance in this decade. And this is not just about how we've made health and hygiene focus drive the business growth harder. You've seen that in our results in 2012 and we hope to continue this focus in health and hygiene over the next years. But it's also about how we are shaping our organization for out-performance.

There's a lot of change that has happened in 2012 in the organization, and by the creation of two area organizations in emerging markets versus the one that we had before. But more tellingly, I would say, what we have done in Europe and North America, and I know 12 months ago a lot of people had a puzzled and quizzical look on their faces when I talked about Europe and North America needing to become a growth area for us.

And I said this is not just a challenge for us as an organization. It's a challenge for the industry. How do we eke out growth in Europe and North America? And I said rather than wait for Europe and North America to come back to

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growth from a market point of view, we've got to make sure that we do the things that are going to make that happen and we've created an organization structure which is of course leaner, which is faster, which is much more responsive to what is happening out there. And I'm really very pleased that we managed to eke out 1% growth in Europe and North America for some time actually. And I think that's very pleasing.

And then, of course, shaping the business for tomorrow also in terms of some of the things that we've done more recently: creating platforms of health in Latin America when we had none, creating a platform for health in China where you've seen from the press release this morning, we have created now and I'm going to talk to you about briefly about that, and then of course creating a platform for VMS, which I will show you later is a very interesting part of the world that we never managed to participate in and something that we should. So, I think shaping the business for tomorrow is something that we are very pleased on the progress we've made.

The second thing I'd like to tell you all as a message is that we are committed to doing the right thing for this business for the long term. We are not going to take shortcuts to doing the right things. And our promise to put £100 million in BEI investment as an example of what we said we would do. And that's something that we've delivered on; we delivered more than £100 million in BEI actually in 2012.

And then the third message I have for you is that when I laid out the strategy, we said there are a number of things we want to do to make this happen, and I just told you I believe that we are fully on track on this strategy and perhaps a little ahead of where we said we would be at this point in time.

So these are the three major messages I have for you before I get into the financial top lines, which basically are we delivered in a year a 5% like-for-like growth, both excluding as well as including RBP. We had, actually, a very strong second half of gross margin expansion just the way we thought we would have, of 140 basis points in the second half leading to a 50 basis points improvement in gross margin, which together with a number of other things, including tight management of fixed costs, resulted in an operating margin expansion which we are very happy about. And then, clearly, the working capital management and the tight control on cash continues to be very good in this company. And as a result of all of these things, we've had a dividend increase of 11% in the second half, totaling £0.78.

So, these are the top lines. And if you look at it in some kind of a trend, we've delivered 5% like-for-like. Exchange actually played quite a significant role in our net income, as you saw. There was a 300 basis point impact just from exchange this year, quite significantly adverse, both in terms of euro and also in the number of emerging market currencies. And, really, that was the story actually from a like-for-like on actual versus constant point of view.

Right. Here's a simple chart on RBP. And I want to make one point very clear. You guys basically – you guys, I don't want to point fingers here. But generally speaking, the market focus is on the left-hand side of the chart. That's what the predominant focus of the market is, like when is the generics coming, how many will they be, what impact will you have, what's going to happen to your Citizen Petition?

Let me just tell you, inside the company we focus on the right-hand side of the chart. That's where our focus is. So, really, there is a big difference between where you guys are focused versus where we are focused because really on the left-hand side, we can't control. There's no control that we have on the left-hand side of the chart. We don't decide when genetics will come in. We don't decide the outcome of the Citizen Petition and, actually, I don't have anything new to tell you.

What I would tell you is that we are focused really on the right-hand side, working very hard to make sure that we can provide patients access to better treatment, and better treatment is a sublingual film. It's better because we know that the [ph] pay is (6:49) better, the consumers prefer it, they stay longer on treatment, it costs less to the payors. It's better because it's also safer, as we just demonstrated some time ago. That's what we are focused on.

And the second bit is we are focused on – is that we are creating, we are creating a more sustainable business here and we need to invest behind the pipeline for this business. I think some time ago we exposed you to some of the pipeline projects that we had, and I said to you at the time of the Q4 conference call that we will be raising our investment in clinicals in this business and we will continue to do so also in 2013.

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Expect us to do that in 2013 because we do believe the conditions are absolutely right and the projects are at a stage where we want to do that. So that's the other message. And as a result of this, clearly, you've seen the trend on – it looks really very, very good. And all kudos to the team which has made that happen. Now, 64% of the total market is now on Suboxone film which is higher, of course, when you look at just the shape of Suboxone business to our businesses is, obviously, much higher than the 64% number there.

So, our efforts at making this business sustainable just don't extend to what I call business results. We have produced a sustainable quality of business results, but our efforts are not just about that. We are doing very well actually in terms of other aspects of sustainability and our social contribution. And I would say that this is an area that Reckitt Benckiser in typical fashion has been quite understated in. We are pretty understated when we do things like this, but I want to tell you here that I do believe that RB have had one of the most ambitious programs in environmental sustainability, one of the most ambitious.

2007 we said we wanted to reduce our carbon footprint per unit dose by 20%, and that was an end-to-end, a cradle-to-grave impact, which means even including the amount of heat and energy that is deployed in using dishwashers in homes of consumers, to take ownership of that carbon footprint, too. And we have actually reduced our carbon footprint during this period of time by 20%. That, to my mind, is one of the most significant achievements that we have made in the area, or even within our peer group made in the area of environmental sustainability.

And then this whole issue of social contribution, and we have increased just last year our social contribution with our primary partners of Save the Children by 60%. We now touch and help over 300,000 children and families around the year, around the world. So we do believe that this business is not just about results, it's about responsibility. And I just thought I'd give you an idea about what we've achieved. But our ambition on social contribution, on sustainability, does not finish with what I told you at the results. We have a vision to take this beyond, and we call that under the banner of betterbusiness, betterbusiness. And we will be a better business because we plan to take and reduce our footprint on carbon by a further one-third, or we plan to focus on water because we do know water scarcity is going to be a global issue, it is a global issue in many markets already, and we plan to reduce our water impact also by one-third.

And the third element of our vision on sustainability is the fact that we are an innovation engine. And if we actually integrate our whole mindset of sustainability through our innovation, we will become a better business. So we have undertaken to make one-third of our new products come from more sustainable ingredients. So it's trying to embed in a very practical and important way this whole mindset of sustainability under this banner of betterbusiness. And that's what we want to be, a better business in all ways. And if we do that, I'm absolutely sure that we will not just be better for environment or better for society, but also better for shareholders.

So under this banner of betterbusiness, I think it's the ideal time to invite Adrian to show how he will also be better for our business going forward.

Adrian N. Hennah

Thank you, Rakesh, for that introduction. I knew there'd be some little surprise there. Okay, we could turn to the numbers. So slide 12 on the income statement, if we could turn to that, please. Am I driving this or is someone else driving this? Oh, you're driving. Thank you, [ph] Frank (11:34)

Good, okay. So turning firstly to slide 12, on the income statement. As Rakesh mentioned, revenue for the year was £9.6 billion, representing a like-for-like growth of 5% and 5% excluding RBP after adjusting for movements in exchange rates and for the effect of acquisitions and disposals. The group's top line-growth trend improved through the year. You can see here that revenue in half two was £4.9 billion. This represents 6% of like-for-like sales growth on half two last year after 4% in half one. We will look at the quarterly revenue progression in a moment.

Gross margin in half two improved by 140 basis points. Operating profit before exceptional cost in the half was £1.45 billion. The operating profit margin pre-exceptionals was 29.6%, 110 basis points higher than half two last year, driven by the gross margin improvement. The increase in BEI as a proportion of revenue was broadly equal to the reduction in

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fixed costs. Exceptional costs charged in the half were £87 million. We have set out an analysis of these costs in an Appendix. They comprise the restructuring costs associated with the new strategy and organization announced last February, the last SSL integration costs and the transaction costs of the Schiff acquisition.

Moving then to slide 13 and moving further down the income statement – again, I'm driving this aren't I? The net interest cost was £7 million in half two and £15 million in the full year, reflecting both the modest level of group debt during the year and the current very low cost of borrowing under the group's certificate of deposit program.

The tax rate for half two was 23% and for the full year was 24%. This is lower than we had been expecting, due to a one-off benefit from the favorable settlement of a number of disputed items and the 2% reduction in the UK corporate tax rate. The reduction in the UK rate reduces current year taxes, but it also gives a material one-off benefit by reducing the group's deferred tax liability, much of which relates to future UK tax. Looking forward on tax, we expect a rate of about 25% for 2013. Adjusted diluted EPS in half two was 153.3 pence, an increase of 11% on last year. This is above the 5% growth in adjusted operating profit, due mainly to the reduction in the tax rate in half two.

Turning then to slide 14, an analysis of revenue growth rates by business segment by quarter. Rakesh has described the main drivers of our revenue progression and will add significantly more color in a few moments. I will add only a few more detail points on the reported growth rates by segment on this slide and by category on the next slide. Firstly, on price mix and volume changes across the geographies we operate in. For the year as a whole, we saw a broadly equal contribution from volume on the one side and price and mix on the other to total revenue growth. And, indeed, we saw this for the group as a whole and in each of our areas.

With respect to ENA sales, as Rakesh has highlighted, the group delivered a further encouraging increase in the growth rate in quarter four, with improvement in the U.S.A and in several parts of Europe. On RUMEA, growth in RUMEA was held back modestly by the upscheduling of Nurofen in Russia in quarter two, with which I think you're familiar, by increased competitor intensity in Turkey and by some operational challenges in South Africa. In Q4 this was offset by some increase in customer inventory levels. We expect headwinds from these issues to continue through much of 2013 before they're fully sorted or annualized.

In RBP, growth in quarter four was high, due, as you know, to the weak comparative. In quarter four 2011, reported sales were reduced by a high level of Medicaid accruals. This had a positive mid-teens impact on our quarter four 2012 growth rates. The underlying trend in quarter four was similar to that seen throughout 2012. We expect reported revenue growth to be strong again in quarter one this year in RBP due to some fluctuation at wholesale inventory levels as additional formats of the film are introduced and as quarter one last year saw the tail of the high Medicaid accruals. After quarter one and subject, of course, to the timing of generic entry, we expect a normal trend to be restored. We have included as an Appendix a reconciliation of the reported like-for-like numbers in this slide to the reported numbers.

Turning then to the next slide, slide 15, and an analysis of revenue growth rates by the principal categories set out in the strategy in February last year. Firstly, health. The progress in the growth trend through the year is clear and is strong evidence that the focus the group is putting on the health category is delivering results. As mentioned in connection with ENA growth trends on the previous slide, there are, of course, also some seasonal and inventory fluctuation drivers in the Q4 and half two reported growth rates. Portfolio brands were down slightly in Q4 after a strong Q3. The market in laundry detergents and fabric softeners in Southern Europe, which form a large part of the group's portfolio brands, continue to be volatile. Within food, the weaker growth in the latter parts of the year was driven mainly by a weakening in overall market growth.

Turning to the next slide, slide 16, and an analysis of gross margin and brand equity investment. In respect of gross margin, as mentioned earlier and indeed as Liz signaled in July, the group delivered solid margin expansion in half two after a decline in half one. This has been driven by a number of factors. Firstly, the group fully achieved the Project Fuel cost savings program, which was targeting £50 million in total and the largest part in half two. Secondly, half two saw a more stable commodity and input cost environment. Thirdly, while volume and price mix both continued to contribute strongly to overall revenue growth, half two did see a slight improvement in the pricing environment. And lastly, of course, the strong growth in the health category helps gross margin mix and offsets the slightly negative gross

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margin effect of the higher growth in emerging markets.

On BEI, you can see the 70 basis points increase in the level of spend in the full year, and the 90 basis points increase in half two. The group has met its commitment to increase BEI spend by £100 million in the full year, and, Rakesh, again, will speak in a little more detail on this in a moment.

Turning to slide 17, this shows an analysis of operating profit before exceptional items by business segment for half one and for half two, and we've included the equivalent full-year numbers in an Appendix for your convenience. The strong – the group delivered strong margin growth in half two, an increase of 110 basis points driven by the 140 basis points increase in gross margin.

The 70 basis points increase in margin for the full year exceeded the stated expectation for the year of maintained margins, in large part because of the earlier than expected delivery of targeted cost reductions. The group's medium-term intent to deliver a modest increase in margin over time is unchanged. You should also expect to continue to see some modest fluctuation in margin half by half, depending on the timing of investments, cost reductions and, of course, gains or losses in the corporate segment.

With regard to ENA, the early delivery of planned cost savings in 2012, including the gross margin improved in half two, has benefited ENA in particular, as has the mix benefit from strong growth in health sales. With regard to RUMEA, the margin was held back by continued heavy investment in BEI and in certain fixed cost infrastructure to help drive growth in the area. We expect this to continue into 2013. And, lastly, on RBP, Rakesh signaled reduction in the half two RBP margins in the earlier conference calls in the year, driven by increased investment in the pipeline, the lower gross margin of the film product and an increased level of education spending.

Turning to the next slide and a summary of the group's net working capital position, you can see that the strong overall position continues, with only small movements in each of the components of working capital, and I won't go through each of them. And, obviously, the group's very keen focus on this area will very much continue.

Turning then to slide 19, and the cash flow statement. As you can see, the group had another good half and full year of cash generation. Free cash flow generated in the year was £1.7 billion, this amounted to 95% of net income. The group had net debt of £2.4 billion at the end of the year, this was up from the £1.8 billion at the end of half one, due principally of course to expenditure of about £825 million on the Schiff acquisition.

And then lastly in this part of the presentation, two more detailed points on reporting for next year, these fall firmly in the CFO category. We will, of course, be implementing the amended IAS 19 in 2013. In 2012 we had a net pension finance cost of £7 million, which we reported within operating income. Had we applied the amended IAS 19 in 2012, this would have increased to £19 million. In 2013, we will report this item as part of the interest income expense, and we have included an analysis of this change, again, in an Appendix to the pack you've got.

We will also be making a small change in our segmental reporting going forward. We currently have a small footwear business which we report within the RUMEA segment. It has annual revenue of about £50 million and immaterial profit. The greatest part of the business is in Europe and we will in 2013 report the business within our ENA area.

And with those very detailed items, I will hand back to the boss.

Rakesh Kapoor

Thank you. Right. I'm sure you'll have some more questions on the financial side which we can take after the presentation is done. But I'd just like to take you back to February 2012. And in February 2012 we talked about a new strategy based on the vision and purpose of this company of healthier lives and happier homes. And I just wanted to give you a very quick update on where I see the strategy because I did say that we did believe that we were making progress on the strategy and that we are possibly ahead of where we said we would be at this stage.

So, just to remind you all that there was one strong pillar of this strategy – sorry, maybe going too fast, yeah, one strong pillar of the strategy which is our continued focus on our 19 Powerbrands but now applied with the lens of Health and

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Hygiene and Home.

So that focus continues; we've actually invested much harder in this area. And apart from all the organic investments that we've made, you've heard – and I did come on to a call to describe our entry into VMS with the acquisition of Schiff, which gave us access to four very interesting brands: Move Free, MegaRed, Airborne and Digestive Advantage. I hope at least one or two of these are in your bag so that you can get healthier lives and hopefully happier homes as a result of this when you go back home.

Right. Let me describe to you why I believe that it's time to acknowledge that VMS is a health and well-being area because that's how consumers see it. And I can't go and do a [ph] life poll (23:55) here with all of you here, but just think about how many people in your homes or even you are consuming vitamins today versus five years ago? How many people do you know are consuming more vitamins more often today than they were five years ago? This is a global trend. This is a global trend in a market which is now one of the largest consumer markets. Now, estimates vary in terms of whether this is a £35 billion – \$35 billion category or a \$70 billion depending on whether you include mail orders and all the other channels of where people buy vitamins. But it's a huge category.

And the other dimension is growing very strongly. It's grown more than 5% in the last five years and it's projected to grow at more than 4% in the next five years. We've got very strong growth associated with it. And within that, of course, there are some segments of the market which are growing even faster than that. The other interesting thing is that this is no longer a category which has only got growth dynamics in developing parts of the world. It's also a developed market growth category. And that's because of the demographics. It's all very simple. Changing demographics are impacting how people consume vitamins, how they supplement their daily lives with supplements and balance their diets with the lifestyle that they lead. And that's really happening in front of us.

And the third area I'd like to say is that although some of the biggest players in vitamins, which is a hugely fragmented market, are still what I would call prescription pharmaceutical mindsets of the world, some of our largest prescription healthcare companies are operating there and, as you know, in a very public auction we were competing with one of those people, therefore consider that to be a part of consumer healthcare. I don't have to use that stamp of – to say that this is very much in the area of health, but the fact is that it's still a very fragmented market. And the thing which gives me happiness and comfort is that Reckitt Benckiser has proven time and time again to be a better company managing these assets versus traditional pharmaceutical companies.

So we do believe that our strengths in branding, in innovation, in world market excellence, will come to bear in this category. And to my mind, actually this category is even more akin to what our core competence is than many other parts of the business that we have. So it's something that we are very excited about and we are at the very early stages of integration. The had a very good year, I have to say, Schiff had a very good year. Last quarter was also a very good quarter for Schiff, and they are on track. We've given you guys in the Appendix the financial reconciliation of where we see it versus pro-forma 2013, May 2013, which is what we had announced, and we see that business really as we saw it at that time. So it's very, very interesting part of our – of a new, I would say, growth platform for this company going forward.

The other dimension of our strategy was obviously the addition of Powermarkets. We said that given the economic changes that are taking place right in front of our eyes, we have to be much more agile and we have to be much stronger in many of our emerging market geographies. And we actually crafted 16 Powermarkets, a vast majority of those which were in emerging markets. And I have said to you 12 months ago that I'm not going to tell which ones are that, and you started playing guessing games with me and so on and so forth.

I also told you 12 months ago, because of the question from the audience – and I do think who asked me that question, but I'm not going to name him – and said, how's your business in Brazil, India, China and Russia? And I said, look, we have a very, very good business in Brazil, India and Russia. I'm not happy with my business in China versus my ambition. So I'm going to tell you a secret today, that China I made a Powermarket last year. It was a Powermarket as I've described it, and I wanted to give you one secret. If I did it one a year, I think I'll be here a long time.

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So China is a Powermarket. And I'm very happy to say that 12 months on, there's some very interesting progress to share with you. We had I would say okay coverage in China. That coverage was in 47 cities. In 2012 itself, we've enhanced it by investing quite significantly in creation of infrastructure, people, capabilities, go-to-market, 100 cities, doubled the expansion. And that ambition does not stop here. In 2013 we'll take it to 150 new cities.

So that's how I mean building a business for the long term of the company, making the investments where it will make the difference and focusing harder on some Powermarkets which will drive quite a significant part of the incremental growth the of company, maybe not all of it in 2013, but I'm absolutely sure in the years to come. And that's what we want to do.

But our ambition for China is not just to enhance our coverage, we're also executing much better in China. We've invested in higher quality of executions; and this is just an example of a display on [ph] wheat (29:10) where we've invested very significantly in enhancing the quality of what [ph] wheat (29:13) looks like on the shelf and sometimes when you go in China, particularly during the season of [ph] wheat (29:18), you will see it yourself how good it is. And it's not just in the traditional channels, we are getting to [ph] do the (29:22) channels.

And for the very first time, and actually I don't think Heather will talk about it very much today, but for the very first time there are two interesting innovations going in China for China, designed in China. So there's a lot of stuff that we have done in China over the last 12 months. And this is not just organic expansion of our business, which is very important to drive all our brands and our categories, it's also making China leapfrog, in some cases the rest of Reckitt Benckiser, in how it creates a mindset around digital and around online.

And I must tell you that I believe China has become one of the Centers of Excellence for us when it comes to digital and online and e-commerce. Just as an example, it's very interesting for you to know that Durex is one of the top followed social brands on digital, one of the largest followed social brand in digital, much bigger than Starbucks, adidas, PUMA, and in line with the kind of followship the biggest brand like Coke has. It's one of the – some of the things that we've done to feed digital engagement with consumers in China is really world class, apart from many awards that we've got.

The percentage of online sales that we have in China as a percentage of total sales is probably the greatest compared to anywhere in the world. So we have tried to use some of the things that we could do to leapfrog, and I would say our practices in many other parts of the world both to make China a role model on the one side but also actually to create and craft our ambition for the future. So very interesting things about China, but I'm sure at some point in time I can give you more and, who knows, one year, we might have an Investor Meeting in China.

Right. We also made an announcement today about creating a healthcare platform in China. What we have done very recently is bought a leading sore throat brand, it's called Manyanshuning. You got that? Which is the market-leading sore throat brand in a market which is very significant, 2.2 billion, growing at 8%. And the interesting thing is it's a traditional Chinese medicine brand and the interesting things is this company, Golong, also comes with a number of licenses in many other adjacent categories, like cough and other therapeutic areas. And it's a well-known brand in China.

It has created China over 20 years plus brand and it has a very healthy growth associated with it. And what we like about it is its presence, its awareness, it's equity and the fact that it allows us to create a platform on which we can bring over a period of time our other healthcare assets into China. So very interested about what has happened in this. It's a modest-sized acquisition by China standards, so I don't think that you should consider this to be a massive game changer in terms of China. But it's an important step, nevertheless. It's an important step for China. And I can tell you if I described to you how China looked like three years ago versus what it does today and what it will tomorrow, I think we would all be very pleased. And like I said, one day I will tell you.

Right. Moving from China to Latin America, because you know that last year I also said that we do have a consumer health platform, very nice platform, in Russia and India. Where we were missing a platform was Latin America and, of course, China. I just talked about China, let me just spend a few minutes on Latin America, something that we announced only yesterday as it was [ph] consummated (33:12).

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So, in Latin America basically what we bought is in Brazil and Mexico principally, but some other parts of Latin America and also for some parts of the U.S. actually the right – we will have a collaboration agreement and therefore we are going to have an immediate infrastructure and platform for healthcare. In fact, the portfolio that I'm going to show you is truly very strong. It's a very strong portfolio of brands that we have in these two markets with very high growth and margin potential. And they line up very, very well with our existing portfolio. I mean, if you just look at Tempra, which is the number one analgesic brand in Mexico, lines up very well with our analgesics portfolio.

When you look at Graneodín, which is also the number one sore throat brand, lines up very well with Strepsils. Picot is the number one heartburn antacid, lines up very well with Gaviscon. And the same thing is true actually for Naldecon in Brazil which lines up well with Mucinex or for those of you who have hopefully been suffering and taking Lemsip would know that lines up well with cold and flu.

So that's what we have done through this. It's very early stages to describe to you how we plan to strengthen it, but we have very strong ambitions for Latin America and that's something that we are very happy to be into with the acquisition of a very, very – acquisition or collaboration of very strong portfolio brands.

But there's something that we haven't spoken about because in the scheme of things it's not been very material. But late last year we bought the number one condom brand in Mexico. So, Sico is the number one condom brand in Mexico with a market share of 30% plus, and we have bought it and this is immaterial in our 2012 numbers although recognized as not in like-for-like. So going forward we will also, therefore, report it in our acquired side of the business. And that's I think at a local level, it's very interesting thing to have done. So I think that's really the scale that we are creating in Latin America apart from the other missing link, which was China.

So the next part of what I wanted to show you in terms of progress, of course, organization. I already talked about what we've done from an organization point of view. And I must tell you that when I stood there in 2012 February, we knew we were moving very fast. But I'm really proud of how this organization – I mean, what I – I really do believe it, what takes many companies two years to achieve takes this company one year to achieve. And this is also partly reflected in the cost saving discussion that you might have with me later today. We just manage to move very fast.

And the organization is steady and is stable. It's really working well, and you saw that the last six months were also very good. And I'm pleased that we've created the organization we did, very responsive, [ph] delivered (36:18) completely, no Snakes and Ladders, and that's something that is moving. And there's nothing big to report here except to say that looks good, in good shape.

And finally, the whole area of margin. And I described I think – the CFO described last year this virtual cycle of growth. And I just wanted to put some numbers to this virtual cycle of growth so that you could see it coming to life. Gross margin expansion, we managed to create 50 basis points of gross margin expansion, a very significant effort on the company's side to create Project Fuel and raise the ambition on Project Fuel and deliver it in 2012 itself.

And then we had, I said we would move and take cost out through [ph] delayering (37:06), through simplification of the Europe, North America organization to creating the space through which we could reinvest for growth in Europe, North America. We made a pretty bold step, I would say, to put increased BEI in Europe, North America in spite of very tough markets.

And we took cost out to sort of offset that. And the result, that was very good, what we did. BEI, you heard the story, we did over £100 million and, clearly, we drove our top line at 5%, also then eating out 70 basis points of margin, certainly much more than what we had said at the time of February last year. So the virtual cycle works, that's all I'm saying, it works. And we know how to drive it, we know how to make this work. And that's why we were happy with what has happened in this.

Talking of BEI, you saw the trends before between 2010 and 2011, and all I would say is that I think a BEI of 12.7% is probably the highest percentage ever. And although I don't have exact mathematics here, but I think that the £100 million plus that we've put is about more than what we put in the preceding two years put together if you take out the impact of SSL. In 2011 we bought SSL full year, and therefore there was obviously this absolute BEI increase. But if you take that out, I think £100 million is more than what we put on two years put together. So it's a very significant

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investment going behind our brands, going behind our innovations, making this a higher-quality growth company.

And I just wanted to use that as a slide to invite Heather to say how the BEI will be deployed in 2013 and beyond behind the innovation program that we have.

Heather Allen

Thank you, Rakesh. So I'm delighted – good morning and I'm delighted to come talk to you today about some of our exciting innovations for 2013. I will start by talking about our innovations in Health and then some of our innovations in Hygiene and then some of our innovations in Home. Just trying to figure out what screen I can look at. That one will work.

So let's start with Health, and let's start with Mucinex. I know that all of you are familiar that we've taken Mucinex into multi-symptom cold and flu, so our core business is in cough. We very successfully entered into cold and flu, first with liquids, last year with caplets and we are now entering into sinus with our Sinus-Max range with maximum-strength ingredients to continue to extend the Mucinex brand.

We also have extensions in Nurofen going into some of our biggest Nurofen markets this year in the [indiscernible] (39:52) to expand our topicals range. We know that there are certain consumers who don't want to ingest their analgesics. They want to use a topical. And there are many consumers who don't want a topical with an active in it that's going to penetrate into their bloodstream. So really excited with our new Nurofen Express Heat patches. They heat up in five minutes and they give pain relief for hours, and it will be a very nice extension to our Nurofen topicals range in many of our largest Nurofen markets.

On a bit of a theme of expanding our brands into new territories, we have a very interesting test in Germany that we started towards the end of last year targeting youth, teenagers. We have a very, very healthy Nurofen for children business. But we know as children go up they reject the childish formats, yet their parents as well as they don't believe that they're ready for adult medication formats. So our new 200 milligram Meltlets for Teens in Germany will address that need and give us a very interesting tool to continue to talk to parents about helping their children manage pain or fever when it arrives as they grow up. So very exciting new thing for Nurofen.

Strepsils, we have another theme in the age group which is Strepsils 6+. This will now be going out into many, many markets as our registrations have come through. We know that one of the primary reasons that parents take their children to the doctor is sore throats. And we know that it's very difficult to get a child to take proper sore throat medications, for those of you have children, to suck a lozenge for the right amount of time, to get the coating in the throat. It's a fantastic strawberry flavor, it's sugar free. Parents love it. Children will actually take it properly, and it can really address many of the child's sore throat issues for children over 6+.

On a completely different tack, let's move to Durex. Yes? And Durex we have our Feel Real condoms going into many of our largest European markets. It's a polyisoprene condom. What does that mean? That means it is a much more flexible material for a much closer experience. It also provides some added benefits for those who have latex allergies. But the primary benefit of this condom is that it's a really flexible material for a much closer experience, and we are very excited to be bringing in to many of our large Durex markets this year.

On Gaviscon, we have our Gaviscon direct granules. They dissolve instantly and they dissolve in seconds. I think I have to say in seconds instead of instantly. Instantly is too fast. They dissolve in seconds, and they give relief for hours. They have a fantastic flavor, and they're very easy for consumers to bring with them because we know that many consumers have their heartburn episodes when they're on the go. And this will be going into some of our very large Gaviscon markets early in the year.

And last, but certainly not least, Scholl. It's hard to believe – today is very cold, it's very hard to believe that soon the sun may come out in this country or in many countries around the world and people might start wearing sandals. But we do know that consumers really struggle with hard skin, calluses and, as we go into the summer season, they really start working hard to get rid of that issue. We offer many, many solutions, and we're very proud to have a Hard Skin &

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Callus Express Treatment, a one-treatment solution now for consumers with a product that they can apply, a very nice spatula to help them remove it. A great experience so that they can have a single treatment for fantastic looking feet.

Let me move on to Hygiene, and let me start with Finish. As you know, Quantum is the flagship of our Finish brands, and our Quantum business continues to do very, very well for us. We are restaging Quantum. The best is getting better. We now have Finish Quantum with Power Gel. It's our best shine ever. It combines powerful powder ingredients with a really exciting gel. Now this one I'm going to actually get a sample out because I think when we took the fancy pictures, we just took the yellow one. It also comes in a range of fantastic fragrances to give consumers the pick at the lemon one, you're going to put the green one out, for me. performance that they want from Finish as well as a wonderful experience. I think I picked up the lemon one. You we're gonna put the green one up for me. What happened to my green one? I love the green one. Fantastic. And it was very, very exciting, new innovation for our flagship of our Finish brand.

Now, Rakesh I think talked a lot about many of our large emerging markets and I'm delighted to talk to you about our Veet Naturals. Veet Naturals will be launched first in India. We're rolling it into many of our emerging markets. It's innovation that started with India, where we have a very dynamic cream business. Women are looking for hair removal performance. They want reassurance on naturality and they want a much better sensorial experience. And so this innovation has been developed with consumers in India and will be rolling out first into the Indian market. It's got a fantastic premium-looking pack as well as we have a very aspirational Veet brand in the Indian marketplace.

Moving on to Dettol. I'm going to talk to you about two initiatives on Dettol. Dettol is a really fantastic business. If you work on Dettol, your focus, your purpose is to do more for health every day. You can talk to the most senior person who works on Dettol, the most junior person who works on Dettol in any of our Dettol markets around the world and we all know what the purpose of Dettol is.

As we try to bring Dettol to life, we always deliver our germ kill, we always deliver the core benefit of the brand. But we know that we also have to add sensorial benefits, other benefits that consumers are looking for. If a consumer is using eight or ten bar soaps a year, seven or eight body washes a year, she or he also want other benefits. So this year we're launching our Dettol Radiance Soap and Body Wash so our consumers can have the trusted germ protection of Dettol, as well as some of the other sensorial aspects that they're looking for from their personal care products. It'll be a very, very exciting launch for us in many of our Dettol markets around the world.

And now on a completely different note for Dettol. Because of our purpose and our focus on health, we have an exciting test which is happening in India where we are launching our Dettol Healthy Kitchen Gel. It's suitable for dishes, it's suitable for surfaces, and will bring Dettol into the kitchen, to create healthier kitchens for families in India. And so it's a very exciting new stretch for the brand.

Home. Vanish. Vanish is about stain removal. Our consumers love us if we help remove stains. We remove the stains that detergents can't. We're always listening to our consumers, trying to figure out how we can provide a better stain removal experience, a better product. We've improved our gel in terms of our formulation, but we've also improved the tools. Because we know that she gets – or he, if he does the laundry, gets the best possible stain removal experience if they use it in the right way. And actually the person who does the laundry is the expert in how the laundry is done.

Our new Vanish Gel will give improved stain removal performance as well as some new tools for consumers to pre-treat, soak and add it to the wash, so that they can get the right activity that they need for their stain. We're also going to be launching quite heavily some new tip exchange programs because we know that our consumers are the experts in terms of how to use, manage and get the stains out. So it will be very, very exciting new launch for the brand in terms of how the product can be used in a versatile way.

Now, I had a sample here which was taken out of the box. So I'm going to rip this apart. This is Air Wick Filter & Fresh. I think Rakesh has talked to you about Filter & Fresh before. And this is Air Wick Filter & Fresh for CAR. It's very small. Inside is a tiny filter. If you want a pure fragrance experience, you've got to take the bad smell out first. And this tiny filter actually stretches to the size of a tennis court, it's an activated carbon filter, it's a micro filter, it captures the nasty smells so you get a fantastic pure fragrance in the car. So, very, very exciting fragrance experience for Air

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Wick with a major entry into the car segment.

And last but not least, certainly one that I'm really, really excited about. This is our Air Wick EverFresh Gel. It's going to be launching into India. The gel segment is a very simple segment. You need a very high-quality gel, you need high-quality fragrances, but most gels only last two weeks. Our Air Wick EverFresh Gel will last 30 days. Very simple, it has two chambers, the consumer opens one chamber then she opens the second chamber, she gets a fantastic long-lasting experience at an incredibly reasonable price. So, it's a fantastic initiative. It's first launching in India and it will roll out into a number of our other markets.

And I think that should be a rapid-fire tour of our major innovation for the beginning of the year. Rakesh?

Rakesh Kapoor

Right. You all know that when we talk about innovation we get very passionate, and there's no better example in this company than Heather Allen, so you can see the passion that we have for our products, and we could go on for a long more time. But let's just summarize very quickly for you 2012 and then talk about targets for 2013 before we open it up for Q&A. So, right. What have we been doing? In the first half, was all about cleaning up the core, making sure we've discontinued the stuff that was not adding value, and that means that the private label business is largely discontinued now at the end of 2012, largely done with it and also some other minor tail brands that we had in the portfolio. So, that's what happened in the first half.

And the second half was really more about strengthening the core where we took over the full rights to the Russian Medcom business, which is the business which came with SSL. It was also about creating the platforms that we did with VMS and also finally creating the geographic platforms that we just talked about, both in Mexico with Sico and also really with China that I just outlined. So it's really quite a lot of progress in shaping the portfolio in terms of both getting out of the non-added value private label business to focusing on the core.

And just to summarize the performance from a KPI point of view, from a metric point of view, top-line growth rate certainly you've seen it, 5% like-for-like, gross margin expansion 50 basis points. We've got the BEI for £100 million plus. We had operating margins which were very, very strong at 70 basis points, clearly the result of early savings on ENA driving that quite hard and also of course our Health and Hygiene KPIs that we have set together with the emerging market KPI that we have set.

And just to remind you what we have said last year, we said we were 67% of our business was in Health and Hygiene. That's what we said. And we wanted to increase it by an average of 1% per year per year until 2016, making it 72%. So in 2012, we actually made 68% of our business in Health and Hygiene. And judging by the progress we are making, we believe that not only will we get to the 72% in 2016, we should get it a year earlier, maybe even more in the case of this because of the recent stuff we have done. So this company shape of portfolio from a Health and Hygiene point of view is going to accelerate from here.

The second bit is about the focus on emerging markets footprint. And we said that we said that we had 58% of our business in ENA and 42% of our business in emerging market areas of RUMEA and LAPAC. And in 2012, we ended with 44%, 56%. And here you remember the target of 50/50 by 2016, and we believe we have the conditions to bring that also forward by one year to 2015.

So that's how I judge the medium-term KPIs. And then moving to really 2013 very quickly. And I just wanted to paint you the context for 2013. We remain committed to our medium-term KPI of 200 basis points outperformance versus our market. But we also have a number of moving parts this year and I just wanted to make sure that we don't get lost in all this stuff. That's the reason why we've made sure that we cleaned out also the impact of discontinuation and disposals with the acquisitions in the Appendix, so you can see that in the Appendix. But really after you take out the private label and the other discontinued business, which has about £180 million impact, and add all the acquisitions that we have talked about – already have talked about, the net impact is about 100 basis points of growth, a bit higher than 100 basis points of growth, but in that region.

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We also expect in spite of the fact that many of these platforms are new for this company, we also expect to drive hard synergies of £40 million on an annualized basis, of which we expect 50% to accrue in 2013 itself. And then we expect restructuring charges of just over two times the annual synergies of £95 million. So these are the three contexts that I think I wanted to paint for you before I tell you where the targets are set. So the total target for total net revenue, including the effect of discontinued and of acquisition is 5% to 6% growth on top line. Okay?

And we continue with our objective of moderate expansion of margins in the medium term, which means having delivered 70 basis points in 2012. We now guide for and target for maintain operating margins for 2013. Q&A?

Q&A

<Q - Rosie A. Edwards>: Yes, good morning. It's Rosie from Goldman Sachs. Just on your final point there on the margin, just struggling a little bit to understand the guidance given. We're not expecting another step-up in brand investment. There'll be synergies of around £20 million plus. We would expect the strong cold and flu season to continue into at least Q1 and, therefore, a positive mix impact from health. So, what am I missing I suppose?

<A - Rakesh Kapoor>: I don't think you're missing – I can't speak with about cold and flu and all the forward-looking interesting ideas about what cold and flu will look like. But all I would say is that if you look at the broad picture [ph] without (55:10) getting into all the details, one of the biggest drivers of our op margin expansion that we had put forward for 2013 was the £30 million of ENA cost savings. That's a material number when you look at the margin impact when you bring that forward to 2012.

So I think we should not look at margin on a quarter basis and sometimes even on a year basis. I think we are making healthy progress from a top-line and margin point of view. And over two years, we would have still delivered 70 basis points of margin over two years, which definitely would qualify as – at a positive side of moderate margin expansion. So, there is an early achievement I would say of ENA cost savings of £30 million, and there is continued intent to invest behind the business in 2013. Which means that we want to raise from £100 million that we had in 2012 by further in BEI. We want to increase that.

A lot of people ask me a question, what happens in 2013, will you take the £100 million or part of the £100 million? And I said, no, I have no plans to do that. And judging by the innovation pipeline, judging by how I see growth, I do believe we should put more money on the business. And it's not just in BEI, just to give you an example – just as an example of what we're doing to make sure that our Powermarket infrastructure is where the – don't have the right platforms also get the focus.

So I would say that investment in the business will continue. And that's the theme. That's the theme that we have realized margins – many of the cost savings that were planned for 2013 early. I think people should be happy about that. And then we have still the mindset of investing for the long term.

<Q - Jeremy D. Fialko>: Good morning. It's Jeremy Fialko at Redburn here. A couple of questions. First of all, can you talk about gross margins in 2013, any more detail you'd like to give on those? And secondly, can you talk a bit more about China, just whatever numbers you can give us in terms of the size of it? What sort of level of profitability or kind of the scale of the loss that you're currently incurring and some of the growth ambitions for it? Thank you.

<A - Rakesh Kapoor>: Right. So let's take the second one. I cannot give you any numbers on China or India or Brazil or Russia. All I would say is that two to three years ago we had not a very good business. In 2012 we had a good business, and we are not loss making in China.

So the way we have crafted our business in China is also going to be a virtuous cycle. It's not like we're going to have a parasite – sorry to think like this, relationship, parasitical relationship, with the rest of the organization. I don't believe in this. I don't. You saw that in 2012 I actually said we are going to put all this investment, but we are going to find a way of creating the funds for this investment.

So I think we have to think about how we reconstruct a healthy business, and not a business which is not sustainable. So I think China is building a sustainable platform and I think we are not making losses in China, just FYI, in spite of

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the fact we are continuing to invest aggressively in infrastructure.

The first one of your question on gross margin, I can't give you any more color than what you have. We had a very strong second half of the year. And the first half really had these benefits also from the previous year. If you remember the whole construction of first half, second half of last year, you know that we were hit relatively less hard in the first half because the first quarter did not get hit because of flowback of 2010 cost and our input costs. The second half was very badly hit last year. We had the full brunt of our input costs in the second half.

And then when we look at this year, some of that second half hit flowed into the first half, but also our Project Fuel had not fully materialized all the value, which happened in the second half. And the second half, really, the business mix was also better. I mean, I have said that also 12 months ago that even if you don't get engaged with my strategy of healthy, alive and happier homes from an emotional platform point of view, at least you should see the financial logic of that strategy. It means if we go more on Health and Hygiene versus the rest of the portfolio, it will be better for margin. And that's what the second half shows.

<Q - Celine Pannuti>: Yes, good morning. Celine Pannuti from JPMorgan. My first question would be on market growth. If you could give us your usual view on the market growth? My second question, which is related to growth, can you – on the 3% growth you've achieved in ENA, tell us what Health has been and whether you have seen the growth of Health in ENA?

<A - Rakesh Kapoor>: In ENA?

<Q - Celine Pannuti>: ENA, sorry. And what kind of performance are we seeing in Hygiene and Home in terms of market share, too? By the way, just a little one, could you also tell us why is it that you – why don't you just guide us on like-for-like? Why do you have to guide us with the M&A included?

<A - Rakesh Kapoor>: Right, right.

<Q - Celine Pannuti>: And then last but not least, on acquisition, you've done two different acquisition, one is VMS entry and then the strengthening of distribution in different countries. How we should look forward into maybe other investment in VMS by region or – yeah?

<A - Rakesh Kapoor>: You have a lot of strategic questions, Celine. It's my job to answer that where I can. So let me just say in terms of market growth, where do I see it. And I have to admit that there has been some positive flu trends in Q4, and although this whole season has not played out yet because, like, January and January is not a year and January is also not the flu season, and there might be a front-half versus second-half impact, and all these complicated things which I don't too much worry about personally. I don't worry about how's the first quarter and the last quarter impact going to be because if you had a good flu season in the last quarter this year, which is in general terms, a bigger flu season.

Just remember Q4 is generally speaking a bigger cold and flu quarter in sales terms simply because you have a lot of people buying in, whether it be the customers buying in or consumers buying in in advance of the season. So I don't worry too much about what's happening in the Q1 and what therefore might happen in Q4. I would say market I would see still trending up 2% plus for 2013, which is of course better than what I said 12 months ago when I said 1% to 2%. So I think this is going to be a market in 2013 which will be upwards of 2%.

And the second question is why I did not guide on this 200 basis points, well actually, you can construct it any whichever way you want. If I told you like-for-like growth rate, you'll ask me about what's the impact of acquisitions and disposals, and so we can come back to the same answer, whichever way you like it. I thought it'd be much simpler. And the fact of the matter is I told you last year and I must tell you again this year, when I give out targets outside the company, like £100 million more BEI, I don't give different targets inside the company.

So I don't set like-for-like growth targets inside my companies, Celine. I don't. I don't tell them, you only have to deliver like-for-like and all the acquisitions that come on top you have no responsibility for. They have total targets. We have to deliver both like-for-like, of course, as you see it, but also the acquisitions. So I think 5% to 6% also is a method that we have of growth in total and there are some moving parts underneath that and I think are just told you

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what you should expect in terms of moving parts. I think market should be 2% plus this year. I think I do expect – and, of course, very difficult to say what happens to the rest the year in terms of flu, but I do expect many more positive start to the year from a seasonal point of view.

Then you asked me a question about can you give me some ENA trend? I do not, as you know, give out by brand by area. I would say that don't get too – you know, I don't like to get too sensitized to what's been written out there. I think the fourth quarter was a good quarter on many dimensions. So although we had 10% growth in aggregate on Health, but all non-seasonal brands that we had also did well. We just had a good quarter and I think we should just take that as a good quarter.

And I think, did Health help? Yes, it did. Did – was it a better season in Q4? Yes, it was. But do I say that all of what we did is only down to this would be underplaying what has happened to this. So that's how I would see the ENA versus others. And although I never give out statements on Europe versus North America, et cetera, I would say as I said in Q4 and before, I see some of the European things to be moving from worse to bad. So I do see there are some better trends really that we have and I think that's the way it is for all of this. And you have some question on China and whether I would do more acquisition at VMS?

<Q - Celine Pannuti>: [inaudible] (1:05:31)

<A - Rakesh Kapoor>: VMS, you want to know? Well, the ink has barely dried on our Schiff acquisition and we want to make that a success. We believe that is going to create value for shareholders. We believe it's going to be growth accretive to the company. We believe that post-synergies, it'll be margin accretive to the company. And at that point in time, we are going to look at making sure that we can keep creating value.

And at the same time, we will look at what that means in terms of our global ambitions and how do we actually treat those ambitions over a period of time, either organically or if anything else was to come up which we thought was attractive from a valuation and strategic point of view to also take a look at. But at this point in time, our full focus is to make Schiff integration a good, strong integration and make it a successful financial story.

Let's take Harold.

<Q - Harold P. Thompson>: Good morning. Harold Thompson from Deutsche Bank, just two questions. One is a bit of a follow-up on Celine's is on Schiff. Clearly, long-running watchers of Reckitt's have had mixed messages on the vitamins market as one of your potential OTC segments. So if you could maybe just take us through why you have entered that area and why now and maybe not earlier before?

And secondly, just try and give us some feel of how different the vitamins market can be between just kind of vitamin C versus maybe the supplements market and how the growth, and I guess the competitive landscape is different? And secondly, is more a technical question. Last year you did do a small buyback just to offset the dilution of share schemes. Should we expect that to continue in 2013 or not?

<A - Rakesh Kapoor>: Let me take the last one because it's the simplest one. The answer is that there is going to be a modest buyback of 1%, which is lower than what we did last year. So it's very modest, just to mop up the outstanding shares and share awards and stuff like that. We did around 2% last year. We are going to do 1% this year, so [ph] down from material (1:07:42).

In terms of the broader question of why now and so on and so forth, I will just say that, first and foremost, I think when you craft a strategy and a vision and a purpose for the company, it gives you a different lens through which you look at everything. And I think, as you said, that we want to be in health and hygiene, then we need to think about how people think about health and hygiene, not how manufacturers think about health and hygiene.

And I think we have to become real here. People, real people, not – I tell of our own people when somehow we are real people at home and then we walk to our offices, we become marketeers or we become strategists or we become general managers and so and so. What happens to us? We forget our behaviors at home. Our behaviors at home are thinking about vitamins as a way through which I can keep myself healthy.

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That's why I'm taking vitamins, to keep myself healthy. I am taking vitamins. And I never did that when I became – this is a true story and I think made it in the conference call – became CEO, talked about health and hygiene. I went to a supermarket shelf just to look at what VMS was there and because I wanted to start working on this area. And then I got – I'm not going to name the brands because they're competing brands, I don't like competing brands, and we bought a handful of them.

I brought them home and I asked my wife to give them one a day for this, this and this, just to see what happens to me. Well, all I can say is I feel very good. I feel very – I'm vitalized. Every day I'm really charged and I cannot say whether that was truly because I didn't have pain before and I don't have pain now, but it do work. And all I can tell you is – and this is a fact, my number of tablets have gone up, and after that day I never bought one. It came to my house automatically and I now have more than I asked for.

And I think that's happening. People want to live a healthier life. That's what they want. We should not be in denial. So I do not want to say whether the old statement was right or wrong. But today, that statement is a statement of denial.

<Q - James Edwardes Jones>: Hi. It's James Edwardes Jones from RBC. Two questions for me. First, your sustainability vision, Rakesh, does that have any financial implications to the group, maybe particularly in terms of capital intensity? And, Adrian, would you perhaps be able to give us your first impressions of Reckitt or maybe a little SWOT analysis or something like that?

<A - Rakesh Kapoor>: Right, let me answer the first one. I hope it has a positive impact on our financials in the long term. Although year-on-year, I don't think I can give you the mathematical impact of it. The fact of the matter is if you all start using more sustainable ingredients for our products and making our products more sustainable, it's going to be better for the environment, better for the products that we are buying in terms of cost benefits. I'll give you just two simple examples. We have reduced – and Heather did not take you through this, we have a very successful innovation in electric – in Air Wick called Freshmatic, very successful, fantastic franchise. We have reduced the plastic content by 20%

We have now, in the new Freshmatic, we have reduced a circuitry inside the thing and the gadgetry inside by 60% or something like that, which has a material impact clearly on the sustainability of – from an economic point of – environmental point of view, but also have an economic impact. Because it's cheaper gadget. And the same I would say are for a number of areas that we do.

When we do squeeze programs, typical squeeze program in the company, they are done and designed in a way that has no impact on quality of the product. But we are taking, let's call it, unnecessary ingredients or materials or packaging out. That's an economic impact and a sustainable program.

So, I could easily stand here and say out of the £50 million of fuel, £25 million relates to a financial benefit even as those products are more sustainable because they have less unnecessary ingredients or less unnecessary packaging.

So there is a material impact and maybe one day as we are working on a new sustainability calculator also for water and things like that, we are trying to make it like everything in Reckitt Benckiser has to have a metric, so we are going to have even more metric on sustainability. There's somebody working on sustainability innovation, calculators for water and other areas. And we might come to a point where we can say we've got X million more profit because of this, but we are not at this point in time ready to tell you. But there is – we know that all the programs that we run have a positive cost impact.

Is the SWOT?

<A - Adrian N. Hennah>: Well, not a SWOT actually. I think that's probably going a little too far, but a couple of things, James. First of all, I'm very pleased to be here. Maybe an observation on culture. Because certainly like anyone joining a company, you do a bit of due diligence. And I did my due diligence on Reckitt Benckiser and the culture and the spirit featured pretty strongly.

And I guess perhaps as a finance guy, one tends to take these things with a bit of, let's say, skepticism. But having been here for now five or six weeks, it hits very strongly. This biased action, this very goal focused, this high energy, and

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this very lean mentality are very, very real things. I mean I can say that pretty definitively after only five or six weeks. There's something special in Reckitt Benckiser.

And so the second comment I was going to make was a sort of about the broader strategy, but in evolving a strategy, maintaining the essence of that RB culture and spirit is clearly something very important. And I'm very pleased to say it's something that management is very engaged on. It does, in my experience, set RB apart from the companies I've worked in in the past anyway.

And on the strategy question, again, something I obviously looked at quite carefully from a due diligence point of view before joining and liked very much on paper what I read about the movement and focus to Health, something I do know a little bit about even if the sort of sharper end of Health may be in OTC, and the movement to emerging markets obviously. And so on paper, it made a lot of sense to me. Analytically, it made a lot of sense to me as you look at it outside.

When you move inside, you have the privilege of also beginning to see some more of the plumbing. You're beginning to see what more is actually happening under the surface. And I've been very, very pleased that it's – when you can see externally it's a lot more than words. I mean the inorganic stuff, the acquisitions, they're firmly in the middle of that strategic intent.

But also organically, an awful lot of stuff, the movement in the talent in the organization. A lot of – the head of focus is on in that category is moving the organization into healthcare, it recognizes that the people it's competing against in OTC have some greater skills than it in some areas and it needs to address that these things are being really addressed.

So my first impression is they are very confirmatory of the questions I was left or positively confirmatory of the assumptions I made for my due diligence. So I'm very pleased to be here. And that's about as far as I'm giving in my SWOTs, James, just at the moment.

<A - **Rakesh Kapoor**>: Right. Let's take this one and then one at the back.

<Q - **Eduardo Santos**>: Hi, it's Eduardo Santos from Dynamo. Just a few from me. First a clarification, since the VMS acquisitions were announced yesterday, are they included in the 100 basis points impact from acquisitions that you...

<A - **Rakesh Kapoor**>: Yeah.

<Q - **Eduardo Santos**>: ...that you mentioned?

<A - **Rakesh Kapoor**>: [indiscernible] (1:15:31)

<Q - **Eduardo Santos**>: It is?

<A - **Rakesh Kapoor**>: If you go to the Appendix, they will tell you exactly what the impact is.

<Q - **Eduardo Santos**>: Okay.

<A - **Rakesh Kapoor**>: The impact will not be full-year impact, so even if they had a performance of \$102 million or something like that, we get our hands on this business only around Q2. So, it's more the annualized impact is not – this year impact is not going to be the full \$102 million included in the number.

<Q - **Eduardo Santos**>: Okay. Then the second, when we acquired Paras in 2010, I believe that most important was the infrastructure in India rather than the brands. These acquisitions of VMS [ph] Max1 (1:16:03) Brazil, especially in Brazil, do they improve significantly your route-to-market in that market or – and how happy you are with the route-to-market you have today in Brazil?

Then the third question is you mentioned the impact of Health growing more than the group in gross margins in the second half. Could you give us an idea of differential gross margins between Health and the remaining of the group and if the returns of Health are higher than the group, I mean, if the capital investment of Health is more or less the same of what you have in Home?

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And then just a last one...

<A - **Rakesh Kapoor**>: I'll forget all these questions.

<Q - **Eduardo Santos**>: ENA in the fourth quarter, like-for-like 3%, if you could give us an idea of price and volume for that?

<A - **Rakesh Kapoor**>: So, let me see if I can track it back. So, fourth quarter was a very high quality growth quarter. We have much more volume growth than price mix growth, and that is also true for ENA. So ENA was skewed on volume versus price mix in the fourth quarter. And I would say for the full year as a whole, our 5% growth lines up around more than half and half in favor of volume. So volume has a higher bias on my 5% than price mix. And that trend continued even more strongly in the second half and also in the last quarter.

So, if you look at the skew of volume versus price, the skew towards volume was most predominant in the last quarter, even a bit less in the second – third quarter, and the first quarter – first half was two and two out of the four, if I remember all my numbers. So more volume weighted in the second half, of which quarter four [ph] was this and also two for (1:17:49) ENA. I can't give you exact breakup.

Then in terms of your other question, which I also have found was not easy to answer, go and tell me?

<Q - **Eduardo Santos**>: The Health gross margins and the...

<A - **Rakesh Kapoor**>: Yeah.

<Q - **Eduardo Santos**>: ...and the returns of Health compared to...

<A - **Rakesh Kapoor**>: I can't give you Health gross margins. All I said last year was the gross margins on Health and Hygiene are better than the average of the company. And by focusing more on Health and Hygiene, we are going to drive a positive mix and virtuous cycle of growth. So, Health margins certainly are higher.

<Q - **Eduardo Santos**>: Does that mean the returns are higher or the capital investment in Health are also higher so the returns are more or less the same?

<A - **Rakesh Kapoor**>: Okay, well, I think too technical. But I would say by and large it's a high-return business versus a pure cleaning business, to put it this way. Just to make it very stark, the Health.

<Q - **Eduardo Santos**>: Infrastructure in Brazil?

<A - **Rakesh Kapoor**>: Infrastructure in Brazilian brands. I would say there is a – you compared with Paras, if I remember. In Paras – in India and Brazil we have a very nice business, really very nice. But in both cases, in India I would say it's both the acquisition of brands and infrastructure. It was not just infrastructure and the brands did not count. The brands do count. We have done very well actually with the Paras brands in 2012, just as we said we would. We have done very well.

As I look at Brazil and Mexico, I think the brands are very good quality brands and I would imagine that you at least know some of them. Do you?

<Q - **Eduardo Santos**>: [inaudible] (1:19:28)

<A - **Rakesh Kapoor**>: Fantastic brands? Yeah.

Q – [07K7DY-E Eduardo Santos]>: [inaudible] (1:19:32)?

<A - **Rakesh Kapoor**>: Yes. We're only surprised and one day I will hope to surprise you. But they're high-quality brands. So the first thing and I would like to say I'm very, very pleased with the brand quality and brand equity.

The second thing I would say is that it will do – it step changes our infrastructure and go-to-market in that channel even more than Paras did in India. It will do more in Latin America than we did with Paras in India. So it's that much – we are that much better off actually, if that answers.

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So we are – I would say the brand quality is fantastic and the step change in infrastructure is even more obvious in Latin America, in Brazil and in Mexico both, versus what in India was. India was good, this is better.

<Q - Robert R. Waldschmidt>: Good morning. It's Bob Waldschmidt from Merrill Lynch. Three questions, if I may. On the input cost environment, can you update us on how you stand, where you are in hedging and the impacts of the year, whether it's first half or second half?

<A - Rakesh Kapoor>: I would say that I don't expect any material change in input cost environment at this stage of the year. We are hedged around 40% of our input cost, which is about the state we are normally in. We don't expect much.

<Q - Robert R. Waldschmidt>: Perfect. On the second question, when we think about the margin evolution, the non-Schiff bolt-on deals that are happening, are they going to be margin accretive this year or is that more of a future plan?

<A - Rakesh Kapoor>: So in terms of the non-Schiff deals, the most material in terms of the size is, of course, the one that we announced yesterday. And the way the collaboration agreement is structured means that there is some amortization of the collaboration amount. Part of the 2013, I think Adrian can explain the technical issues if you really, really want to, but I don't expect it to be margin – EPS accretive in 2013, even though without amortization it would be. In 2014, it will be EPS accretive also...

<Q - Robert R. Waldschmidt>: Okay.

<A - Rakesh Kapoor>: ...because of the growth and so and so forth, with the full-year impact and the growth.

<Q - Robert R. Waldschmidt>: Sure. And then lastly, and I'm surprised we haven't had any questions at all yet on it, but in terms of Suboxone, on Suboxone...

<A - Rakesh Kapoor>: Right.

<Q - Robert R. Waldschmidt>: ...we've heard today you've got new film variants coming. Maybe a word on that? And then, too, I know you don't have a view on generic competition, but in terms of the branded competition which claims to be coming in say Q3, perhaps a word on your view on the viability of that?

<A - Rakesh Kapoor>: Yeah, we have introduced two more variants of the film. And the reason is quite simple. It's the 4 milligrams and the 12 milligrams, we used to have 2 milligrams and 8 milligrams, and we've introduced 4 milligrams and 12 milligrams. And the reason is this, that we do know that the prescription that flows into consumers is at a dose level which varies from patient to patient. And some of that requires people to self cut their doses up. And that really creates not just the inconvenience or maybe even the you would say technical hassle of whether you've got the right dose, but also the pediatric exposure that is the most important part of it.

So in order to deliver the right – or give patients and medical practitioners more choice, we've introduced this. And as Adrian mentioned, some of the pipeline effect which we expect to wash out because people are not going to just buy up and use, I hope, more than what they need, will wash out. But right now, we expect maybe in the first quarter that to impact our first quarter results, what's the normal average trend which could wash in the later quarters. That's what we've done. The reason is exactly to avert the risk of pediatric exposure with patients self-cutting the doses and stuff like this.

<Q - Robert R. Waldschmidt>: And any view on [ph] AREXA's (1:23:27) potential entry?

<A - Rakesh Kapoor>: We cannot – it's all in FDA's hands, in their hands and not in ours. And we just have to put – this business has done extraordinarily well by not worrying too much about the noise outside. It's put your head down and done the right thing for its patients, its medical doctor, practitioners and for the business. And I think that's what it's focused on doing. It's not thinking about [ph] AREXA (1:24:00) will come and do what. Who knows? It's not in my hands when they will come and what impact they will have. We just have to do the right thing for us. I can't comment on it, really. I have no knowledge.

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Last one. Give it to [ph] Pablo and I'll take one outside (1:24:19).

<Q>: Thank you, Rakesh. Look, I have three questions, but if you may answer my first one first. I'm trying to think about the move, the increasing move into OTC away from household. And I understand that it's a higher margin, higher growth category apparently. But I want to have a sense of your capabilities and the competition. And what I mean by that, so are you entering an area where the competition is weaker than the one that you faced in household?

When I think of this and the OTC drugs in Mexico, Brazil, I'm assuming that your infrastructure there, as you said, is not so strong, and there are well-entrenched pharmaceutical companies that are already there in OTC, like Glaxo or Bayer. And in the case of Brazil, of course you have Hypermarcas. So what I'm trying to say with a very open mind, just trying to understand based on your track record in the UK and the U.S., why should we think that you have this huge opportunity in OTC? And why should we think that you are much better than maybe the established competition?

And related to that if I may, yes, Mucinex the way I see it has been a huge success since you acquired it, you've grown the [ph] items (1:25:34) business, but it's been just Mucinex. I mean, I'm surprised that you, given this focus on OTC, you haven't done more deals in the U.S. So if you can just comment on that.

<A - Rakesh Kapoor>: Right. So first of all, at the macro level I would say that we have a very well-established homecare business. And that homecare business, I've showed you in many charts in terms of how many markets our brands are present in and then you would see that our homecare business is far more well-developed in terms of the number of markets, the number of countries it operates in and so on and so forth. And therefore the – we don't have gaps like we did have in Latin America on consumer health or we had in China on consumer health.

So when you see us doing the right things organically, but sometimes also as I described in the M&A strategy last year, to do geographic platforms where we did not have platforms is part of that same strategy. So we are not saying well actually homecare comes completely off the table, and just because you see these headline-grabbing deals, which are only material. I mean, look at our 2012 was not an inorganic growth story. It is an organic growth story. 2013 will be an organic growth story. It's not going to be this like-for-like versus – it's an organic story. It's not – but in some cases we have to create these platforms to be much more competitive and much more effective with our global ambition.

And the fact of the matter is this is a very fragmented market, unlike homecare which I judge it to be much more oligopolistic. This is still very fragmented. There's no big major big players which have significant portions of the whole world market. And, therefore, there's a real opportunity for a company to actually start creating over a period of many years, and this is not going to happen overnight, to become a significant player in this area.

And I do believe Reckitt Benckiser already has established track record of showing success versus traditional pharmaceutical companies in this area. And the reason is as we work hard to neutralize what I call some of the points of parity that they have, equal and regulatory capabilities, clinical capabilities, equal and medical marketing capabilities. This is why we said BEI is important and that's why I added all these components to my BEI, so that people invested in this area.

We have decidedly superior advantage in terms of claims, in terms of innovation. I mean, we just saw another innovation from Nurofen, and since the time we acquired, you just have to look at the list of innovations put out by this company in health versus a competing company in this area.

So I think we have advantage in consumer health and we are working very hard to create it on a global platform basis. In Home, we have it very well developed. So I don't see that walking away from one and embracing the other ,and I also don't want you to walk away thinking like because of the headlines that some of the most recent things that have grabbed, that the focus is not organic. This is an organic growth company. And that's where we are going to apply our focus.

<Q>: Okay. Thank you. And just a quick follow-up.

<A - Rakesh Kapoor>: On Mucinex, I think you had a questions on Mucinex, why did we do more stuff in the U.S. Well, Mucinex has been a tremendous story. And the fact of the matter is this, when we bought this brand, it was a

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cough and congestion brand, principally cough and congestion. What has happened two years ago? We launched into cold and flu, so you could have said, why didn't you buy a cold and flu brand? Well, actually, we had one because we just made it to one. And so it's been a very successful cold and flu story.

What's happening next? As I just described, a significant entry into sinus, it's \$1 billion market, sinus in the U.S. So, yes, we could have 25 brands to manage, but you could also take one brand and make it a true Powerbrand which is what Mucinex has.

The other bit I would like to tell you that is probably less sung about is that we do have Cepacol. And those of you have American connections know that Cepacol is a very interesting brand. It's like Strepsils and I think [ph] Andy (1:29:35) may have some experience of it, I hope. And so we have a sore throat brand in the U.S., too. And I'm not – like I said, we don't work on a day-to-day basis thinking let's buy stuff in the U.S. and let's – we have a very nice organic opportunity here with Mucinex and with Cepacol, and why not make the most of it?

<Q>: Thanks. Just two quick follow-ups. Regarding VMS, I haven't done a lot of work on it but I visited a number of GNC stores, Walgreens, Duane Reades in the tri-state area, and what I see is that there's a lot of what I call mega-platform brands, right? You have Nature's Bounty, Nature's Finest, Nature's, I mean, a bunch of – it's almost like everything that you're buying, whether it's an omega oil or whatever it is, it's under these mega-platforms.

And of the Schiff products, the only ones I see is MegaRed, and normally at the bottom. And it's a standalone brand, it's not part of a platform. I mean, talk about how is that an opportunity or maybe a problem for Schiff.

<A - Rakesh Kapoor>: I think, [ph] Pablo (1:30:34), the way you described it to my head and my mind is a fantastic opportunity for us because I know each time I go to the U.S. I see MegaRed is hugely underexploited. The penetration of MegaRed versus the omega oil market is such a miniscule. And this is the reason why – and we know krill is a much better product. Krill is a much better product versus fish oil.

So we see a significant opportunity to improve the execution capability, to make it much more visible in-store, to make it much broader in terms of its strength, and then to think about how we could actually take it into the Mucinex-type of expansion opportunity. So I think what you described is precisely why we also see quite an interesting opportunity.

<Q>: And the last one – and the last – can I just ask the last one, on the Citizen Petition, there's eight generic companies that are challenging the Citizen Petition. So if they win and the Citizen Petition is rejected, would you keep the tablet in the market? And do you have any timing based on the regulatory framework when you should have a reply on the Citizen Petition [ph] buyout (1:31:44)?

<A - Rakesh Kapoor>: Right. So very quickly, our decision to withdraw the tablets was made independent of the Citizen's Petition. We announced the decision to withdraw before we filed the Citizen Petition. It had nothing to do with it. So, we withdraw the tablets anyway. And we withdraw the tablets because we strongly believe that there's an issue of patient safety here – sorry, safety around the patients, pediatric safety, yeah. And it's done on that principle. And, therefore, we are not – irrespective of the outcome of the Citizen Petition, our plan to withdraw it continues to take place.

And your other question was?

<Q>: [inaudible] (1:32:25)

<A - Rakesh Kapoor>: No, not – of withdrawal you mean?

<Q>: [inaudible] (1:32:29)

Rakesh Kapoor

No. They – well, technically speaking, they should answer in five days from now. Five months from the date of the petition, 18 of February. Normally, they say in five months they answer, but there's lots of instances where they don't

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manage to answer in five months and it can go beyond. So I cannot – really, again, this is an area of focus which I do not want to give myself or anyone in my company. Let's not worry about what happens there. Let's keep doing our job. I think also, [ph] Pablo (1:33:00), you should also not worry too much about it. Take my hint, focus on the right side of the chart, not the left side.

Thank you very much for coming.

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