Registered number: 02175750

# Johnson & Johnson Limited

**Annual report and financial statements**

**For the year ended 28 December 2014**

## Contents

## Company Information

| | |
|---|---|
| **Directors** | C R Thorne<br>V Dawkins<br>M J Robinson<br>P Smallcombe |
| **Company secretary** | V Dawkins |
| **Registered number** | 02175750 |
| **Registered office** | Foundation Park<br>Roxborough Way<br>Maidenhead<br>Berkshire<br>SL6 3UG |
| **Independent auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>4th Floor<br>One Reading Central<br>23 Forbury Road<br>Reading<br>Berkshire<br>RG1 3JH |
| **Bankers** | Royal Bank of Scotland plc<br>Corporate Banking Office<br>PO Box 450<br>5-10 Great Tower Street<br>London<br>EC3P 3HX |
| **Solicitors** | Linklaters LLP<br>One Silk Street<br>London<br>EC2Y 8HQ |

## Strategic report
**For the year ended 28 December 2014**

The directors present their Strategic report on the company for the year ended 28 December 2014.

### Principal activities

The company acts as a sales agent for fellow group companies, receiving commission in respect of sales made.

### Business review

Overall the directors are satisfied with the performance of the company during the year and its financial position at the year end.

During the year on 19 November 2014 the company ceased to act as sales agent for the products under the Benecol brand following the sale of exclusive distribution rights by a fellow group subsidiary of Johnson & Johnson. Under the agreement the company received £3,895,000 in compensation for loss of future profits. Further details are given in note 9 to the financial statements.

The key financial and other performance measures were as follows:

| | 28 December 2014 £000 | 29 December 2013 £000 | Change |
|---|---|---|---|
| Turnover | 51,074 | 48,035 | 6.3 % |
| Operating profit | 10,575 | 9,419 | 12.3 % |
| Profit for the financial year | 11,588 | 7,203 | 60.9 % |
| Total shareholders' funds | 53,974 | 43,663 | 23.6 % |
| Average number of employees | 301 | 302 | (0.3)% |

The results and dividend section in the Directors' Report and the profit and loss account on page 9 show the results for the financial year.

Turnover has increased by 6.3% due to the continued growth of recently launched products.

Operating profit has increased by 12.3% in line with management expectations.

The balance sheet on page 11 of the financial statements shows the company's financial position at the end of the year.

The average number of employees has decreased by 0.3% year on year.

### Future outlook

Both the level of business and the year-end financial position remain satisfactory, despite strong competitive and market pressures. The directors expect that the present level of activity will be sustained for the foreseeable future.

### Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to general industry conditions and competition; economic conditions; technological advances; challenges inherent in new product development; and product efficacy or safety concerns resulting in product recalls or regulatory action.

## Strategic report (continued)
**For the year ended 28 December 2014**

### Key performance indicators ('KPIs')

The directors of Johnson & Johnson Limited manage the company's operations on a divisional basis. The business is managed using a set of financial performance measures. These measures are reviewed routinely and used in making actical and strategic decisions affecting the short and long term results of the business.

This report was approved by the board and signed on its behalf.

...........................................
M J Robinson
Director

Date: 04/09/2015

## Directors' report
**For the year ended 28 December 2014**

The directors present their annual report and the audited financial statements of the company for the year ended 28 December 2014.

### Results and dividends

The profit and loss account for the financial year is set out on page 9.

The company's profit for the financial year is £11,588,000 (2013: £7,203,000). A final dividend of £nil (2013: £nil) per ordinary share amounting to £nil (2013: £nil) was paid. The aggregate dividends on the ordinary shares recognised during the financial year amounts to £nil (2013: £nil). There are no proposed dividends awaiting approval at the balance sheet date (2013: £nil).

### Financial risk management

The policies set by the Group are implemented by the company's finance department. The department has a policy and procedures manual that sets out specific guidelines to manage price risk, credit risk, liquidity risk, interest rate cash flow risk and circumstances where it would be appropriate to use financial instruments to manage these.

The company, together with other UK based affiliate companies, participates in one or more In-House Treasury Cash Pool arrangements administrated by J.C. General Services CVBA, a company incorporated under Belgian law with registered office at Turnhoutseweg 30, 2340 Beerse, Belgium. The centralised financial management provided in relation to the In-House Treasury Cash Pool is intended to enable the Cash Pool participants, by acting collectively, to have access to the broadest range of credit options at arm's length conditions, while optimizing the use and investment of the liquidities available within the In-House Treasury Cash Pool.

*Price risk*

The company is exposed to commodity price risk as a result of its operations but is partly indemnified against loss under its agency arrangements. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

*Credit risk*

The company acts as a sales agent on behalf of fellow group companies. Under the agency arrangements the company is responsible for the collection of third party debts on behalf of the fellow group companies but is indemnified against any losses arising from bad debts.

*Liquidity risk*

The company is funded within the Johnson & Johnson group of companies. Its funding requirements are reviewed regularly by both the board of directors and the treasury department of Johnson & Johnson to ensure the company has sufficient available funds for operations and planned expansions.

*Interest rate cash flow risk*

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets earn interest at a variable rate.

# Directors' report
**For the year ended 28 December 2014**

## Future outlook

The directors expectations for the future of the business are set out in the Strategic report included within the annual report and financial statements.

## Qualifying third party indemnity provisions

At the time the report is approved or throughout the year there are no qualifying third party indemnity provisions in place for the benefit of one or more of the directors (2013: none).

## Directors

*The directors who held office during the year and up to the date of signing the financial statements, unless otherwise* stated are given below:

C R Thorne
V Dawkins
M J Robinson
P Smallcombe

## Employee involvement

The company is committed to the continued development of employee involvement by an effective communications and consultative framework. Consultative committees covering broad business areas, pensions, health and safety, quality and employee services are well established and meet regularly. Team briefings, which complement other forms of management communication, ensure that all levels in the organisation are kept up-to-date on the performance of the company, thereby increasing employee engagement. In addition surveys such as the Annual Credo Survey are conducted to provide opportunities for employees to feed back to senior management on the health of the business and general working environment.

The current emphasis is on facilitating cross-functional relationships to increase awareness and to build effective teamwork.

The company is committed to the principle of employee share participation and accordingly during the year have continued the Johnson & Johnson All Employee Share Ownership Plan. This scheme provides employees with the opportunity to acquire shares in the US parent company of the Johnson & Johnson group on an advantageous basis and it is operated with tax benefits under HM Revenue & Customs approved share scheme arrangements.

The company's policies and practices are regularly reviewed and feedback is received from all staff levels.

## Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

# Directors' report
**For the year ended 28 December 2014**

## Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Disclosure of information to auditors

All directors in office at the time the report is approved confirm:

So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the steps that he/she ought to have taken in his/her duty as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

## Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place in accordance with s487 of the Companies Act 2006 for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

This report was approved by the board and signed on its behalf.

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M J Robinson
Director

Date: 04/09/2015

# Independent auditors' report to the members of Johnson & Johnson Limited

## Report on the financial statements

### Our opinion

In our opinion Johnson & Johnson Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 28 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

Johnson & Johnson Limited's financial statements, comprise:

- the Balance sheet as at 28 December 2014;
- the Profit and loss account and Statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

## Opinions on matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year which the financial statements are prepared is consistent with the financial statements.

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

# Independent auditors' report to the members of Johnson & Johnson Limited

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Gavin Crawford (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
4th Floor
One Reading Central
23 Forbury Road
Reading
Berkshire
RG1 3JH

Date: 4/9/15

## Profit and loss account
**For the year ended 28 December 2014**

| | Note | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|---|
| **Turnover** | 2 | | |
| Continuing operations | 3 | **41,880** | 37,613 |
| Discontinued operations | 3 | **9,194** | 10,422 |
| | | **51,074** | 48,035 |
| Administrative expenses | 3 | **(46,441)** | (44,518) |
| Other operating income | 4 | **5,942** | 5,902 |
| **Operating profit** | 5 | | |
| Continuing operations | 3 | **9,076** | 7,685 |
| Discontinued operations | 3 | **1,499** | 1,734 |
| | | **10,575** | 9,419 |
| **Exceptional items** | | | |
| Profit on sale of discontinued operations | 9 | **3,895** | - |
| **Profit on ordinary activities before interest** | | **14,470** | 9,419 |
| Interest receivable and similar income | 10 | **75** | 84 |
| Other finance expense | | **(25)** | (24) |
| **Profit on ordinary activities before taxation** | | **14,520** | 9,479 |
| Tax on profit on ordinary activities | 11 | **(2,932)** | (2,276) |
| **Profit for the financial year** | 20 | **11,588** | 7,203 |

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial years stated above, and their historical cost equivalents.

The notes on pages 12 to 29 form part of these financial statements.

## Statement of total recognised gains and losses
**For the year ended 28 December 2014**

| | Note | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|---|
| **Profit for the financial year** | | **11,588** | 7,203 |
| Actuarial loss on pension scheme | 18 | **(201)** | (5) |
| Movement on deferred tax relating to pension liability | 17 | **40** | 1 |
| **Total recognised gains and losses relating to the year** | | **11,427** | 7,199 |

**Johnson & Johnson Limited**
**Registered number: 02175750**

## Balance sheet
**As at 28 December 2014**

| | Note | £000 | 28 December 2014 £000 | £000 | 29 December 2013 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 12 | | **2,590** | | 2,952 |
| Investments | 13 | | **-** | | - |
| | | | **2,590** | | 2,952 |
| **Current assets** | | | | | |
| Debtors | 14 | **166,086** | | 169,270 | |
| Cash at bank and in hand | | **6,269** | | 9,614 | |
| | | **172,355** | | 178,884 | |
| **Creditors:** amounts falling due within one year | 15 | **(119,844)** | | (137,301) | |
| **Net current assets** | | | **52,511** | | 41,583 |
| **Total assets less current liabilities** | | | **55,101** | | 44,535 |
| **Provisions for liabilities** | | | | | |
| Other provisions | 16 | | **(501)** | | (420) |
| **Net assets excluding pension scheme liabilities** | | | **54,600** | | 44,115 |
| Defined benefit pension scheme liability | 18 | | **(626)** | | (452) |
| **Net assets including pension scheme liabilities** | | | **53,974** | | 43,663 |
| **Capital and reserves** | | | | | |
| Called up share capital | 19 | | **11,565** | | 11,565 |
| Profit and loss account | 20 | | **42,409** | | 32,098 |
| **Total shareholders' funds** | 21 | | **53,974** | | 43,663 |

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

M J Robinson
Director

Date: 04/09/2015

The notes on pages 12 to 29 form part of these financial statements.

## Notes to the financial statements
**For the year ended 28 December 2014**

### 1. Principal accounting policies

**Accounting period**

The accounting year ended 28 December 2014 consists of 52 weeks. For the purposes of these financial statements the year is referred to as 2014. The accounting year ended 29 December 2013 is referred to as 2013.

**Basis of preparation**

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies which have been consistently applied throughout the year are set out below.

**Consolidated financial statements**

The company is a wholly-owned subsidiary of Johnson & Johnson and is included in the consolidated group financial statements which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 401 of the Companies Act 2006 and therefore these financial statements present information about the company as an individual undertaking.

**Tangible fixed assets**

Tangible fixed assets are stated at their purchase cost, together with any incidental expenses of acquisition, and they are stated in the balance sheet at cost less accumulated depreciation. The assets are reassessed periodically.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. Depreciation is not charged on construction in progress until the asset is completed for its intended use and transferred to the appropriate fixed asset classification.

The principal annual rates used for this purpose, are:

Fixtures, fittings and equipment - 10.00 - 33.33%
Leasehold improvements - shorter of lease term and 10 years.

**Fixed asset investments**

Fixed asset investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

**Foreign currencies**

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the company entered into the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. Exchange gains or losses are included in operating profit.

**Dividends**

Dividends received from subsidiary undertakings are accounted for when received. Dividends paid are accounted for in the year when they are paid.

**Turnover**

Turnover, which excludes value added tax, represents commission receivable from fellow group companies in respect of sales made.

## 1. Principal accounting policies (continued)

### Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term. There are no assets held under finance leases.

### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### Pension arrangements

The company participates in the Johnson & Johnson UK Group Retirement Plan. The UK Group operates a funded defined benefit pension scheme and defined contribution scheme for all UK employees. New entrants are eligible to join the funded defined benefit scheme and the defined contribution scheme is closed to new entrants.

More than one employer participates in the Johnson & Johnson UK Group Retirement Plan and because the assets attributable to each individual company cannot be identified on a consistent and reasonable basis, each company's share of the deficit cannot be identified. Under FRS 17, the company is therefore accounting for its contributions to the scheme as if it were a defined contribution scheme. Accordingly the cost to the company in respect of the scheme is equal to the contributions payable to the scheme during the year, and this cost has been recognised within operating profit in the profit and loss account.

There is also an unfunded, unapproved pension arrangement for a small number of employees who are affected by the Inland Revenue Earnings Cap. The obligation of this defined benefit pension scheme is measured at discounted present value. The operating and finance costs of this plan are recognised separately in the profit and loss account; service costs are spread systematically over the working lives of the employees concerned and financing costs are recognised in the years in which they arise. Actuarial gains and losses arising from either experience differing from previous actuarial assumptions or changes to those assumptions are recognised immediately in the statement of total recognised gains and losses. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation.

### Share-based payments

The ultimate parent company, Johnson & Johnson, operates equity-settled, share-based compensation plans. Certain employees of the company are awarded options over the shares in the ultimate parent. The fair value of the employee services received in exchange for these grants of options is recognised as an expense, using the Black-Scholes option-pricing model, with a corresponding increase in reserves (representing a capital contribution by the ultimate parent). The total amount to be expensed over the vesting year is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to other reserves.

## 1. Principal accounting policies (continued)

### Share-based payments (continued)

Upon exercise, Johnson & Johnson makes a recharge to the company in respect of share options granted to the company's employees. When incurred, these intercompany charges are offset in other reserves against the relevant capital contribution. If the amount of the intercompany charge exceeds the original capital contribution, that excess is treated as a distribution from the company to its parent.

### Employer's National Insurance on share options

Under unapproved share option schemes, the company is required to pay National Insurance on the difference between the exercise price and market value at the exercise date of the shares issued. The company becomes unconditionally liable to pay the National Insurance upon exercise of the options. The company therefore calculates the provision by applying the latest enacted National Insurance rate to the difference between the market value of the underlying options at the balance sheet date and the option exercise prices.The initial provision calculated upon grant of the option follows the underlying option and the charge to the profit and loss account is therefore spread over the vesting period. At each balance sheet date until the date of exercise the provision is adjusted by using the market value of the options at that date.The amount of the National Insurance actually payable will depend on the number of employees who remain with the company and exercise their options, the market price of the ultimate parent company's shares at the time of exercise and the prevailing National Insurance rates at the time.

### Employee benefits – Certificates of Extra Compensation (CEC's)

CEC's were granted up until 31 December 2009 by the company if it wished to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the ultimate parent company and (b) by the formula value of AAR Units as established in the AAR agreement, at the time of termination of employment or death while in such employment.

### Employee benefits – Certificates of Long Term Performance (CLP's)

Since 1 January 2010 CLP's may be granted by the company if it wishes to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the ultimate parent company and (b) by the formula value of AAR Units as established in the AAR agreement.This award represents a deferred compensation instrument with the vested value being paid out at the tenth anniversary of the date of the grant or upon termination or retirement, whichever occurs earlier.

### Cash flow statement

The company is a wholly owned subsidiary of Johnson & Johnson and the cash flows of the company are included in the consolidated financial statements of Johnson & Johnson which are publicly available. Consequently the company is exempt under the terms of FRS 1 (revised 1996) from preparing a cash flow statement.

### Related party transactions

The company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS8, 'Related Party Disclosures', on the grounds that it is a wholly owned subsidiary of a group headed by Johnson & Johnson, whose financial statements are publicly available.

## 2. Turnover

The company sells product on a commissionaire basis and therefore recognises the commission accrued on these sales as turnover in the year to which the sale relates. Hence all turnover is intercompany only.

All turnover originates within the United Kingdom.

## 3. Analysis of operating profit

| | | **Year ended 28 December 2014** | | Year ended 29 December 2013 |
|---|---|---|---|---|
| | **Continuing £000** | **Discontinued £000** | Continuing £000 | Discontinued £000 |
| Turnover | **41,880** | **9,194** | 37,613 | 10,422 |
| Administrative expenses | **(37,554)** | **(8,887)** | (34,502) | (10,016) |
| Other operating income | **4,750** | **1,192** | 4,574 | 1,328 |
| | **9,076** | **1,499** | 7,685 | 1,734 |

## 4. Other operating income

| | **Year ended 28 December 2014 £000** | Year ended 29 December 2013 £000 |
|---|---|---|
| Other operating income | **5,942** | 5,902 |

Other operating income represents income receivable from fellow group companies for services provided and expenses incurred by the company.

## 5. Operating profit

The operating profit is stated after charging:

| | **Year ended 28 December 2014 £000** | Year ended 29 December 2013 £000 |
|---|---|---|
| Depreciation of tangible fixed assets: | | |
| - owned by the company | **563** | 714 |
| Operating lease rentals: | | |
| - plant and machinery | **540** | 559 |
| - other | **740** | 740 |
| Loss on foreign exchange | **7** | - |

## 6. Auditors' remuneration

| | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|
| Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the company | **71** | 71 |

## 7. Staff costs

Staff costs were as follows:

| | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|
| Wages and salaries | **19,595** | 18,216 |
| Social security costs | **2,022** | 2,319 |
| Other pension costs (note 18) | **4,725** | 4,465 |
| Share-based payments (note 22) | **734** | 532 |
| | **27,076** | 25,532 |

The average monthly number of employees, including the directors, during the year was as follows:

| | Year ended 28 December 2014 No. | Year ended 29 December 2013 No. |
|---|---|---|
| Selling and marketing | **222** | 215 |
| Administration | **79** | 87 |
| | **301** | 302 |

'Share-based payments' include £734,000 (2013: £531,678) charged in respect of the fair value of services provided and a credit of £nil (2013: £nil) for the movement in potential recharge to ultimate parent in respect of options not being fair valued.

The average number of employees includes graduate trainees, part time employees and those on maternity leave.

## 8. Directors' emoluments

| | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|
| Aggregate emoluments | 601 | 936 |
| Aggregate amounts (excluding shares) receivable under long term incentive schemes | - | - |

Retirement benefits are accruing to two directors (2013: two directors) under the company's defined benefit pension scheme and to no directors (2013: none) under the money purchase scheme.

One director (2013: one director) exercised share options in the ultimate parent company during the year.

| | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|
| **Highest paid director** | | |
| Total amount of emoluments and amounts (excluding shares) receivable under long term incentive schemes | 391 | 534 |
| Defined benefit scheme: | | |
| Accrued pension at year end | 41 | - |

The highest paid director did not exercise any share options during the year (2013: did not exercise).

## 9. Profit on sale of discontinued operations

| | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|
| Profit on divestiture of Benecol brand | 3,895 | - |

During the year on 19 November 2014 the company ceased to act as sales agent for the products under the Benecol brand following the sale of exclusive distribution rights by a fellow group subsidiary of Johnson & Johnson. Under the agreement the company received £3,895,000 in compensation for loss of future profits.

## 10. Interest receivable and similar income

| | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|
| On UK group banking arrangements | 75 | 84 |

## 11. Tax on profit on ordinary activities

| | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|
| **Analysis of tax charge in the year** | | |
| **Current tax** (see note below) | | |
| UK corporation tax charge on profit for the year | **3,136** | 2,046 |
| Adjustments in respect of prior periods | **(2)** | (2) |
| **Total current tax** | **3,134** | 2,044 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **(202)** | 232 |
| **Tax on profit on ordinary activities** | **2,932** | 2,276 |

### Factors affecting tax charge for the year

The tax assessed for the year is higher (2013: lower) than the standard rate of corporation tax in the UK of 21.50% (2013: 23.25%). The differences are explained below:

| | Year ended 28 December 2014 £000 | Year ended 29 December 2013 £000 |
|---|---|---|
| Profit on ordinary activities before taxation | **14,520** | 9,479 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.50% (2013: 23.25%) | **3,122** | 2,204 |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | **135** | 164 |
| Accelerated capital allowances and other timing differences | **15** | 15 |
| Adjustments in respect of prior periods | **(2)** | (2) |
| Other timing differences | **64** | (1) |
| Deduction for stock option exercises | **(200)** | (336) |
| **Total current tax charge for the year** (see note above) | **3,134** | 2,044 |

### Factors affecting current and future tax charges

The standard rate of Corporation Tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 21.50%.

On 2 July 2013 a change in the UK main Corporation Tax rate to 20% were substantively enacted to be in effect from 1 April 2015. As a result the relevant deferred tax balances have been measured at 20%, reflective of the rate expected to be in force at the time the underlying timing differences reverse.

## Notes to the financial statements
**For the year ended 28 December 2014**

### 12. Tangible fixed assets

| | Leasehold improvements £000 | Fixtures, fittings and equipment £000 | Assets under construction £000 | Total £000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 30 December 2013 | 7,216 | 3,398 | 16 | 10,630 |
| Additions | 44 | 157 | - | 201 |
| Disposals | - | (2,405) | - | (2,405) |
| Transfer between classes | 1 | 15 | (16) | - |
| At 28 December 2014 | 7,261 | 1,165 | - | 8,426 |
| **Accumulated depreciation** | | | | |
| At 30 December 2013 | 4,529 | 3,149 | - | 7,678 |
| Charge for the year | 489 | 74 | - | 563 |
| On disposals | - | (2,405) | - | (2,405) |
| At 28 December 2014 | 5,018 | 818 | - | 5,836 |
| **Net book amount** | | | | |
| At 28 December 2014 | 2,243 | 347 | - | 2,590 |
| At 29 December 2013 | 2,687 | 249 | 16 | 2,952 |

### 13. Fixed asset investments

| | Investments £000 |
|---|---|
| **Cost or valuation** | |
| At 30 December 2013 and 28 December 2014 | 19,766 |
| **Impairment** | |
| At 30 December 2013 and 28 December 2014 | 19,766 |
| **Net book amount** | |
| At 28 December 2014 | - |
| At 29 December 2013 | - |

The above relates to a 100% ownership in the ordinary share capital of McNeil Limited. McNeil Limited's principal activity was the marketing of consumer pharmaceuticals products. The business and balances of McNeil Limited were sold to fellow group companies at market value during 2007, realising a profit in McNeil Limited. McNeil Limited ceased to trade on 30 September 2007. The registered office of McNeil Limited is at Roxborough Way, Maidenhead, Berkshire, SL6 3UG. The directors believe that the carrying value of the investments is supported by their underlying net assets.

On 27 May 2014 the members of McNeil Limited passed a special resolution and appointed liquidators to wind up the company under a Members Voluntary Agreement. Subsequently on 22 April 2015 the company was dissolved.

## 14. Debtors

| | 28 December 2014 £000 | 29 December 2013 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade debtors | **75,826** | 84,254 |
| Amounts owed by group undertakings | **88,788** | 83,708 |
| Deferred tax asset (note17) | **520** | 322 |
| Prepayments and accrued income | **952** | 986 |
| | **166,086** | 169,270 |

Trade debtors represent amounts due from third parties and collected by the company on behalf of fellow group companies under agency arrangements.

Amounts owed by group undertakings includes an amount of £62,595,000 (2013: £49,443,000) invested with the In-House Treasury Cash Pool. This amount is unsecured and interest bearing.

The company, together with other UK based affiliate companies, participates in one or more In-House Treasury Cash Pool arrangements administrated by J.C. General Services CVBA, a company incorporated under Belgian law with registered office at Turnhoutseweg 30, 2340 Beerse, Belgium. The centralised financial management provided in relation to the In-House Treasury Cash Pool is intended to, among other things, enable the Cash Pool participants, by acting collectively, to have access to the broadest range of credit options at arm's length conditions, while optimising the use and investment of the liquidities available within the In-House Treasury Cash Pool.

All investments with J.C. General Services CVBA are made on behalf of the UK group companies by Johnson & Johnson Medical Limited. Transactions between Johnson & Johnson Medical Limited and UK group affiliates to fund these investments are treated as separate arrangements.

All other amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.

## 15. Creditors: Amounts falling due within one year

| | 28 December 2014 £000 | 29 December 2013 £000 |
|---|---|---|
| Trade creditors | **9,360** | 10,771 |
| Amounts owed to group undertakings | **83,622** | 97,413 |
| Corporation tax | **2,248** | 841 |
| Other taxation and social security | **974** | 1,032 |
| Accruals | **23,640** | 27,244 |
| | **119,844** | 137,301 |

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment, with the exception of balances with the subsidiary company, which are interest bearing and have no fixed date of repayment.

## 16. Provisions for liabilities

| | Share options £000 |
|---|---|
| At 30 December 2013 | **420** |
| Additions | **206** |
| Amounts utilised | **(125)** |
| At 28 December 2014 | **501** |

### Share options

The provision represents Employer's National Insurance on unexercised share options (see note 22). This is expected to be utilised within the next 10 years.

## 17. Deferred tax asset

Deferred taxation recognised in the financial statements is as follows:

| | **Amount recognised / (amount provided)** | |
|---|---|---|
| | **28 December 2014 £000** | 29 December 2013 £000 |
| Accelerated capital allowances | **88** | 74 |
| Short term timing differences | **432** | 427 |
| Deferred capital gains/revaluations | **-** | (179) |
| Deferred tax asset excluding that relating to the pension liability | **520** | 322 |
| Deferred tax asset relating to pension liability | **157** | 113 |
| **Total deferred tax asset** | **677** | 435 |

The company had no unrecognised deferred tax at the year end.

| | **28 December 2014 £000** | 29 December 2013 £000 |
|---|---|---|
| At start of year | **435** | 666 |
| Deferred tax transferred in on business acquisition | **-** | - |
| Deferred tax movement in profit and loss account | **202** | (232) |
| Deferred tax movement in statement of total recognised gains and losses | **40** | 1 |
| **At end of year** | **677** | 435 |

The deferred tax asset has been recognised as the directors of the company consider that it is more likely than not the asset will crystallise in the future.

## 18. Pension commitments

Johnson & Johnson Limited participates in three pension arrangements in conjunction with other companies in the Johnson & Johnson Group. These are a funded, defined benefit plan called the "Johnson & Johnson UK Group Retirement Plan", a defined contribution plan with some underlying guarantees for employees called the "Johnson & Johnson UK Group Retirement Plan 16" and an unfunded, unapproved defined benefit arrangement.

It also participates in a life assurance arrangement called the "Johnson & Johnson UK Approved Life Assurance Plan".

### Johnson & Johnson UK Group Retirement Plan and Plan 16

The FRS17 disclosure requirements refer to the situation where either there is only one employer participating in a defined benefit scheme, or there is more than one employer and each employer's share of the underlying assets and liabilities can be identified. In Johnson & Johnson's funded defined benefit scheme the assets attributable to each individual company cannot be identified on a reasonable and consistent basis and so each company's share of the surplus/deficit cannot be identified. In this circumstance, the Accounting Standards Board allows the actual contributions paid by the company to be used as a substitute for 'defined benefit' FRS17 costs.

Contributions paid to the Johnson & Johnson UK Group Retirement Plan by the company in the year 30 December 2013 to 28 December 2014 amounted to £4,558,000.

Contributions paid by the company to Plan 16 in the year 30 December 2013 to 28 December 2014 amounted to £151,000.

At the end of 2014, no contributions were outstanding.

For comparison, during 2013 the company paid contributions of £4,315,000 into the Plan and £127,000 into Plan 16.

The best estimate of the company contributions expected in the period 29 December 2014 to 3 January 2016 to be paid to Johnson & Johnson UK Group Retirement Plan is £4,778,000.

The best estimate of the company contributions expected in the period 29 December 2014 to 3 January 2016 to be paid to Johnson & Johnson UK Group Retirement Plan 16 is £156,000.

The company is also required to disclose the overall funding position of the UK Group Retirement Plan (both the Plan and Plan 16).

### Composition of the Plan

The actuarial valuation of the Plan as at 31 March 2014 is currently underway. The preliminary valuation results at this date have been updated to 28 December 2014 by a qualified independent actuary. The major assumptions used by the actuary were (in notional terms):

| | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Rate of increases in salaries | **4.00%** | 4.30% | 4.25% | 4.25% | 4.25% |
| Rate of increase in pensions in payment (where 5% LPI applies) | **2.90%** | 3.20% | 3.00% | 3.00% | 3.00% |
| Discount rate | **3.75%** | 4.60% | 4.60% | 5.00% | 5.50% |
| Inflation assumption (RPI) | **3.00%** | 3.30% | 3.25% | 3.25% | 3.25% |
| Inflation assumption (CPI) | **2.00%** | 2.30% | 2.50% | 2.50% | 2.50% |
| Deferred revaluation assumption | **2.00%** | 2.30% | 2.50% | 2.50% | 2.50% |

## 18. Pension commitments (continued)

In addition to the major financial assumptions above, it is assumed that male members currently aged 45 will live for 24.4 years from age 65 and those currently aged 65 will live for 22.8 years from age 65. It is also assumed that all members commute 80% of the maximum permissible amount of their pension for cash in line with current commutation terms.

Taking the liabilities calculated on the above basis and the assets of the Plan and Plan 16 at market value gives an aggregate pension scheme deficit at 28 December 2014, for the whole UK Johnson & Johnson Group, of £1,260,000.

Where a deficit exists, the method of removing that deficit is determined by agreement of the Participating Employers and the Trustee. It should be noted that the basis used to calculate the deficit amount for these funding purposes does not correspond to the basis set out by FRS17.

The Johnson & Johnson UK Group Retirement Plan does not have any self investments.

### Unfunded, unapproved defined benefit arrangement

As mentioned above, there is an unfunded, unapproved pension arrangement for a number of employees who were either affected by the old "Inland Revenue Earnings Cap" – which was abolished from 6 April 2006, or whose benefits are in excess of the Lifetime Allowance. These members' benefits are paid directly by the company.

In addition, following the benefit changes that were implemented with effect from 1 April 2012, more benefits are accrued outside of the registered pension arrangement. These benefits are provided through this unfunded pension arrangement.

Since this arrangement is unfunded, it does not have the difficulty of determining the split of assets and so full details are provided. This includes the FRS17 liability and expense in respect of Johnson & Johnson Limited and a reconciliation of the movement in liability over the current accounting year:

The financial assumptions underlying the calculation of the unfunded, unapproved liability are identical to those underlying the calculation of the funded liability.

| **Net pension liability** | **2014 £000** | 2013 £000 | 2012 £000 | 2011 £000 | 2010 £000 |
|---|---|---|---|---|---|
| Deficit in scheme | **(783)** | (565) | (536) | (437) | (405) |
| Related deferred tax asset | **157** | 113 | 123 | 109 | 109 |
| Net pension liability | **(626)** | (452) | (413) | (328) | (296) |

| **Movement in liability during the year** | **2014 £000** | 2013 £000 | 2012 £000 | 2011 £000 | 2010 £000 |
|---|---|---|---|---|---|
| Liability in scheme at beginning of the year | **(565)** | (536) | (437) | (405) | (382) |
| Movement in year: | | | | | |
| Current service cost | **(16)** | (23) | (66) | - | - |
| Other finance costs | **(25)** | (24) | (21) | (22) | (21) |
| Assumptions loss | **(82)** | (9) | (24) | (23) | (13) |
| Experience gain/(loss) | **(119)** | 4 | (10) | (8) | (10) |
| Benefits paid | **24** | 23 | 22 | 21 | 21 |
| **Liability in scheme at end of year** | **(783)** | (565) | (536) | (437) | (405) |

## 18. *Pension commitments (continued)*

| **Analysis of the amount charged to profit or loss** | **2014 £000** | 2013 £000 | 2012 £000 | 2011 £000 | 2010 £000 |
|---|---|---|---|---|---|
| Current service costs | **16** | 23 | 66 | - | - |
| Interest on pension scheme liabilities | **25** | 24 | 21 | 22 | 21 |
| Total expense recognised in profit and loss account | **41** | 47 | 87 | 22 | 21 |

| **Analysis of amount recognised in the statement of total recognised gains and losses** | **2014 £000** | 2013 £000 | 2012 £000 | 2011 £000 | 2010 £000 |
|---|---|---|---|---|---|
| Experience (gain)/loss arising on the scheme liabilities | **119** | (4) | 10 | 8 | 10 |
| Changes in assumptions underlying the present value of the scheme liabilities | **82** | 9 | 24 | 23 | 13 |
| Actuarial losses recognised in STRGL | **201** | 5 | 34 | 31 | 23 |

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £240,000 (2013: £39,000).

| | **2014 £000** | 2013 £000 | 2012 £000 | 2011 £000 | 2010 £000 |
|---|---|---|---|---|---|
| **Experience (gains)/losses of scheme liabilities:** | | | | | |
| Amount (£000) | **119** | (4) | 10 | 8 | 10 |
| % of the present value of the scheme liabilities | **15.20%** | (0.71)% | 1.9% | 2.0% | 2.5% |
| **Total amount recognised in the STRGL** | | | | | |
| Amount (£000) | **201** | 5 | 34 | 31 | 23 |
| % of the present value of the scheme liabilities | **25.67%** | 0.88% | 6.3% | 7.1% | 5.7% |

Estimated benefits to be paid directly by Johnson & Johnson Limited during the next accounting year are £25,000.

**Life Assurance**

Johnson & Johnson Limited participates in an approved life assurance plan. The premiums paid to these arrangements during 2014 were:

| | **£000** |
|---|---|
| Johnson & Johnson UK Approved Life Assurance Plan | **51** |

## 19. Called up share capital

| | 28 December 2014 £000 | 29 December 2013 £000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 11,564,613 (2013: 11,564,613) Ordinary shares of £1 each | **11,565** | 11,565 |

## 20. Reserves

| | Profit and loss account £000 |
|---|---|
| At 30 December 2013 | **32,098** |
| Profit for the financial year | **11,588** |
| Actuarial loss on pension scheme net of deferred tax | **(161)** |
| Share based payment: services provided | **734** |
| Share based payment: recharge from ultimate parent | **(1,850)** |
| At 28 December 2014 | **42,409** |

## 21. Reconciliation of movement in shareholders' funds

| | 28 December 2014 £000 | 29 December 2013 £000 |
|---|---|---|
| Opening shareholders' funds | **43,663** | 35,932 |
| Profit for the financial year | **11,588** | 7,203 |
| Actuarial loss on pension scheme net of deferred tax | **(161)** | (4) |
| Share based payments | **(1,116)** | 532 |
| Closing shareholders' funds | **53,974** | 43,663 |

## 22. Share based payments

### Share options

At 28 December 2014 the company's employees were members of 8 stock-based compensation plans operated by the ultimate parent company. The shares outstanding are for contracts under Johnson & Johnson's 2000 , 2005 and 2012 UK Approved Stock Option Plans, the 2000, 2005 and 2012 UK Unapproved Stock Option Plans, the 2005 Non-Qualifying Option Plan and the 2000 Merck JV Plan. All of these arrangements are settled in equity, have a three year vesting period and any unexercised options lapse 10 years from the grant date.

A reconciliation of option movements over the year to 28 December 2014 is shown below:

| | Number ('000) | 28 December 2014 Weighted average exercise price | Number ('000) | 29 December 2013 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding at start of year | **134** | **$65.86** | 191 | $62.45 |
| Granted | **41** | **$90.44** | 44 | $72.54 |
| Forfeited/Cancelled | **-** | **$65.37** | (3) | $62.97 |
| Exercised | **(15)** | **$61.41** | (41) | $62.82 |
| Transferred | **(21)** | **-** | (57) | - |
| Outstanding at end of year | **139** | **$73.53** | 134 | $65.86 |
| Exercisable at end of year | **52** | | 65 | |

The weighted average fair value of options granted in the year was $347,807 (2013: $212,531). The weighted average share price at the date of exercise for options exercised in the year was $97.06 (2013: $89.88).

For options outstanding at the end of the year, the range of exercise prices and weighted average remaining contractual life are as follows:

| 28 December 2014 | | | | 29 December 2013 | | | |
|---|---|---|---|---|---|---|---|
| Weighted average exercise price | Number of shares ('000) | Weighted average remaining life: Expected | Contractual | Weighted average exercise price | Number of shares ('000) | Weighted average remaining life: Expected | Contractual |
| **$53.93** | **0** | **0 yrs** | **0 yrs** | $53.93 | 1 | 0.1 yrs | 0.1 yrs |
| **$66.18** | **5** | **0.1 yrs** | **0.1 yrs** | $66.18 | 9 | 1.1 yrs | 1.1 yrs |
| **$58.34** | **3** | **1.1 yrs** | **1.1 yrs** | $58.34 | 7 | 2.1 yrs | 2.1 yrs |
| **$65.62** | **8** | **2.1 yrs** | **2.1 yrs** | $65.62 | 12 | 3.1 yrs | 3.1 yrs |
| **$61.75** | **8** | **3.1 yrs** | **3.1 yrs** | $61.75 | 13 | 4.1 yrs | 4.1 yrs |
| **$58.33** | **9** | **4.1 yrs** | **4.1 yrs** | $58.33 | 11 | 5.1 yrs | 5.1 yrs |
| **$62.62** | **8** | **5.1 yrs** | **5.1 yrs** | $62.62 | 12 | 6.1 yrs | 6.1 yrs |
| **$62.20** | **10** | **6.1 yrs** | **6.1 yrs** | $62.20 | 13 | 7.1 yrs | 7.1 yrs |
| **$65.37** | **10** | **7.1 yrs** | **7.1 yrs** | $65.37 | 13 | 8.1 yrs | 8.1 yrs |
| **$72.54** | **36** | **8.1 yrs** | **8.1 yrs** | $72.54 | 44 | 9.1 yrs | 9.1 yrs |
| **$90.44** | **41** | **9.1 yrs** | **9.1 yrs** | | | | |

All options are granted at the current market price on a specific grant date during each calendar year. There is therefore no weighted average exercise price as the shares granted each year are all granted at the same price, given in the table above.

## 22. Share based payments (continued)

The total charge for the year relating to employee share based payment plans was £120,180 (2013: £79,065), all of which related to equity-settled share based payment transactions. After deferred tax at 20% (2013: 20%), the total charge was £96,144 (2013: £63,252).

Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

| | **28 December 2014** | 29 December 2013 |
|---|---|---|
| Share price at grant date and exercise price | **$90.44** | $72.54 |
| Number of employees | **19** | 21 |
| Shares granted in year | **41,317** | 43,592 |
| Vesting period (years) | **3 years** | 3 years |
| Expected volatility | **14.60%** | 14.04% |
| Option life (years) | **10 years** | 10 years |
| Expected life (years) | **6 years** | 6 years |
| Risk free rate | **1.87%** | 1.01% |
| Expected dividend yield | **3.10%** | 3.40% |
| Fair value per option | **$8.418** | $4.875 |

Starting in 2006, expected volatility represents a blended rate of 4-year daily historical average volatility rate, and a 5-week average implied volatility rate based on at-the-money traded Johnson & Johnson options with a life of 2 years. Prior to 2006, expected volatility was based on a 5-year weekly historical volatility rate. Historical data is used to determine the expected life of the option. The risk free rate was based on the US Treasury yield curve in effect at the time of grant.

### Restricted Stock Units and Performance Stock Units

The company also grants Restricted Stock Units (RSU's) and Performance Stock Units (PSU's). The RSU's were first granted in 2006 and have a vesting period of 3 years. The PSU's were first granted in 2013 and also have a vesting period of 3 years. The average fair value of the RSU's and PSU's granted during the year was $82.41, using the fair market value at the date of grant. The fair value of restricted stock units was discounted for dividends, which are not paid on the restricted stock units during the vesting period.

| | **28 December 2014** | 29 December 2013 |
|---|---|---|
| | **Number of shares ('000)** | Number of shares ('000) |
| Shares at start of year | **49** | 60 |
| Stock granted | **19** | 21 |
| Stock forfeited | **(2)** | (13) |
| Stock issued | **(11)** | (16) |
| Stock transferred | **(10)** | (3) |
| Shares at end of year | **45** | 49 |

## 22. Share based payments (continued)

**Certificates of Extra Compensation (CEC's) & Certificates of Long Term Performance (CLP's)**

In addition, the company's employees may be eligible to receive CEC's or CLP's.

CEC's were granted up until 31 December 2009 by the company if it wished to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the ultimate parent company and (b) by the formula value of AAR Units as established in the AAR agreement, at the time of termination of employment or death while in such employment.

Since 1 January 2010 CLP's may be granted by the company if it wishes to reward an employee for faithful service in the past and to encourage employees in their future work by permitting them to share in the growth and success of the company's enterprises by issuing to them Units of Agreements of Additional Remuneration ("AAR Units") and to that end receive as extra compensation sums based upon and measured by (a) the amount of cash dividends from time to time declared upon an equal number of shares of common stock of the ultimate parent company and (b) by the formula value of AAR Units as established in the AAR agreement. This award represents a deferred compensation instrument with the vested value being paid out at the tenth anniversary of the date of the grant or upon termination or retirement, whichever occurs earlier.

**National Insurance**

Share options granted subsequent to 5 April 1999 under unapproved schemes are subject to employers' and employees' national insurance on the gain made on exercise of such options by UK employees.

An accrual of £251,009 (2013: £187,831) for employers' National Insurance has been made at the balance sheet date based on the year-end share price of $104.57. It has been assumed that 100% of shares held by employees at the balance sheet date will be exercised.

An accrual of £245,262 (2013: £232,883) has been made for the employers' National Insurance on restricted stock units.

An accrual of £5,172 (2013: £nil) has been made for the employers' National Insurance on performance stock units.

## 23. Commitments and contingencies

### Annual commitments under non-cancellable operating leases

At 28 December 2014 the company had annual commitments under non-cancellable operating leases for equipment expiring as follows:

| | 28 December 2014 | | 29 December 2013 | |
|---|---|---|---|---|
| | **Land and buildings £000** | **Other £000** | Land and buildings £000 | Other £000 |
| Within one year | **-** | **106** | - | 78 |
| Within two to five years | **-** | **380** | - | 442 |
| After five years | **740** | **-** | 740 | - |
| | **740** | **486** | 740 | 520 |

### Contingent liabilities

If the company were to pull out of all advertising commitments at the year-end there would be a penalty fee of £2,250,000 liable (2013: £1,822,000).

## 24. Subsequent events

On 22 April 2015 McNeil Limited, a subsidiary of the company, was dissolved.

## 25. Ultimate parent undertaking and controlling party

The immediate parent company is Johnson & Johnson Management Limited.

The directors regard Johnson & Johnson, a company registered in the United States of America, as the ultimate parent company and ultimate controlling party. This is the smallest and largest group of which the company is a member and for which group financial statements are prepared. Copies of the consolidated financial statements may be obtained from Johnson & Johnson, One Johnson & Johnson Plaza, New Brunswick, New Jersey 08933, USA.