Registered number 03319712

DePuy International Limited

Annual report and financial statements

For the year ended 1 January 2012

Contents

Company Information

Directors	BG Armstrong (appointed 28 September 2011) AG Crossley (resigned 29 September 2011) AK Ekdahl (resigned 12 August 2011) AA Faber (appointed 21 February 2011) S Hunter (appointed 25 October 2011) D Steane (appointed 25 October 2011) A Denti (appointed 25 October 2011)
Company secretary	D Rose
Registered number	03319712
Registered office	St Anthony's Road Beeston Leeds LS11 8DT
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Benson House 33 Wellington Street Leeds LS1 4JP
Bankers	The Royal Bank of Scotland London Corporate Service Centre PO Box 39952 2 1/2 Devonshire Square London EC2M 4XJ
Solicitors	DLA Piper UK LLP Princes Exchange Princes Square Leeds LS1 4BY

Directors' report
For the year ended 1 January 2012

The directors present their annual report and the audited financial statements of the company for the year ended 1 January 2012

Business review and principal activities

DePuy International Limited sells and manufactures healthcare products and wound management products

Future outlook

The markets in which we operate are expected to remain competitive in 2012 The development of new and existing products and processes continues to be important to the success of the company in all areas of the business We remain confident that the company will continue to perform well in the future

On 2 July 2012 the company sold its UK sales business to Johnson & Johnson Medical Limited (see note 24) Following the sale it is expected that the business will see a reduction in annual turnover for 2012 and 2013 compared to 2011 of around 33% and 67% respectively

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, such as currency exchange rate fluctuations, technological advances, challenges inherent in new product development, and trends toward health care cost containment

Key performance indicators ('KPIs')

The directors of DePuy International 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 tactical and strategic decisions affecting the short and long term results of the business

Turnover has fallen by 5 61% (2010 7 77%) year on year which is in line with business expectations The gross profit percentage has increased slightly from 30 71% in 2010 to 33 74% in the current year reflecting the stable performance of the core business

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 foreign exchange risk and circumstances where it would be appropriate to use financial instruments to manage these

Price risk
The company is exposed to commodity price risk as a result of its operations However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits The directors will revisit the appropriateness of this policy should the company's operations change in size or nature The company has no exposure to equity securities price risk as it holds no listed or other equity investments

Credit risk
The company has implemented policies that require appropriate credit checks on potential customers before sales are made Where debt finance is utilised, this is subject to pre-approval by the board of directors and such approval is limited to high-credit-quality financial institutions The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually

Liquidity risk
The company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions

Financial risk management (continued)

Interest rate cash flow risk
The company has both interest bearing assets and interest bearing liabilities Interest bearing assets include only cash balances, which earn interest at fixed rate The company has a policy of maintaining debt at fixed rate to ensure certainty of future interest cash flows The directors will revisit the appropriateness of this policy should the company's operations change in size or nature

Foreign exchange risk
The company makes sales and purchases in foreign currencies The company manages its foreign exchange risk by hedging its significant exposures through a group hedging scheme

Results and dividends

The profit and loss account for the financial year is set out on page 8

The company's profit for the financial year is £16,381,000 (2010 £45,083,000) A final dividend of £0 643 (2010 £1 072) per ordinary share amounting to £30,000,000 (2010 £50,000,000) was paid The aggregate dividends on the ordinary shares recognised during the year amounts to £30,000,000 (2010 £50,000,000) There are no proposed dividends awaiting approval at the balance sheet date (2010 £nil)

Qualifying third party indemnity provisions

At the time the report is approved there are no qualifying third party indemnity provisions in place for the benefit of one or more of the directors

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

BG Armstrong	(appointed 28 September 2011)
AG Crossley	(resigned 29 September 2011)
AK Ekdahl	(resigned 12 August 2011)
AA Faber	(appointed 21 February 2011)
S Hunter	(appointed 25 October 2011)
D Steane	(appointed 25 October 2011)
A Denti	(appointed 25 October 2011)

Charitable and political contributions

Charitable contributions paid during the year amounted to £5,255,697 (2010 £5,363,000)

No donations were made during the year to political organisations (2010 £nil)

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 Briefing meetings for all staff are held regularly

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

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

Directors' report
For the year ended 1 January 2012

Disabled employees

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

Policy and practice on payment of creditors

The company's policy in respect of its creditors is to settle the terms of payment with those creditors when agreeing the terms of each transaction

Statement of directors' responsibilities

The directors are responsible for preparing the 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

Directors' report
For the year ended 1 January 2012

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006

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

AA Faber
Director

Date 23/11/12

Independent auditors' report to the members of DePuy International Limited

We have audited the financial statements of DePuy International Limited for the year ended 1 January 2012 which comprise the profit and loss account, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 4 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 and 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

Scope of the audit of the financial statements

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 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 If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 1 January 2012 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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the members of DePuy International Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Gary Shaw

Gary Shaw (Senior statutory auditor)

for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Benson House
33 Wellington Street
Leeds
LS1 4JP
Date 23 November 2012

Profit and loss account
For the year ended 1 January 2012

	Note	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
Turnover	2	**218,046**	231,011
Cost of sales		**(144,475)**	(160,070)
Gross profit		**73,571**	70,941
Operating expenses		**(43,312)**	(18,056)
Other operating income		**397**	-
Operating profit	3	**30,656**	52,885
Interest receivable and similar income	7	**514**	1,358
Profit on ordinary activities before taxation		**31,170**	54,243
Tax on profit on ordinary activities	8	**(14,789)**	(9,160)
Profit for the financial year	20	**16,381**	45,083

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

All results are derived from continuing operations

The company has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented

DePuy International Limited
Registered number. 03319712

Balance sheet
As at 1 January 2012

	Note	£000	1 January 2012 £000	£000	2 January 2011 £000
Fixed assets					
Intangible assets	10		**3,713**		5,014
Tangible assets	11		**30,973**		32,860
Investments	12		**1,667**		1,667
			36,353		39,541
Current assets					
Stocks	13	**4,933**		4,494	
Debtors	14	**262,388**		275,993	
Cash at bank and in hand		**667**		1,427	
		267,988		281,914	
Creditors amounts falling due within one year	15	**(233,318)**		(232,932)	
Net current assets			**34,670**		48,982
Total assets less current liabilities			**71,023**		88,523
Provisions for liabilities					
Other provisions	17		**(2,445)**		(5,824)
Net assets			**68,578**		82,699
Capital and reserves					
Called up share capital	19		**46,654**		46,654
Other reserves	20		**3,669**		4,171
Profit and loss account	20		**18,255**		31,874
Total shareholders' funds	21		**68,578**		82,699

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

AA Faber
Director

Date 23/11/12

The notes on pages 10 to 29 form part of these financial statements

Notes to the financial statements
For the year ended 1 January 2012

1. Principal accounting policies

Accounting period

The accounting year ended 1 January 2012 consists of 52 weeks For the purposes of these financial statements this year is referred to as 2011 The accounting year ended 2 January 2011 is referred to as 2010

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 and its subsidiary undertakings are included in the full consolidation of the financial statements of its ultimate parent, Johnson & Johnson Inc In accordance with the provisions of S401 of the Companies Act 2006, group financial statements have not been prepared

Intangible assets

Purchased know-how, goodwill and technology transfer are amortised on a straight line basis over their useful lives, estimated at between 11 and 20 years The directors review the level of intangible assets for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable

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 and impairment 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 capital assets under construction 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

Freehold land and buildings	50 years
Leasehold improvements	over the term of the lease
Plant and machinery	3 - 12 years
Fixtures, fittings and equipment	3 - 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

Stock

Stock and work in progress are stated at the lower of cost and net realisable value The cost of raw materials is ascertained on the first in first out basis and includes transport and handling costs The cost of work in progress and finished goods comprises the cost of direct raw materials and labour, together with the relevant proportion of overheads calculated according to the stage of production reached, based on the normal level of activity Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition Where necessary, provision is made for obsolete, slow moving and defective stocks

Product warranty

A product warranty provision is established for all known product issues which have been notified to customers

Notes to the financial statements
For the year ended 1 January 2012

1. Principal accounting policies (continued)

Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred

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 and trade discounts, represents the invoiced value of goods supplied The company recognises revenue from product sales when the goods are shipped or delivered and title passes to the customer or services have been performed

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 aged 35 or over are eligible to join the funded defined benefit scheme, and new entrants aged under 35 are eligible to join the defined contribution scheme

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

Notes to the financial statements
For the year ended 1 January 2012

1. Principal accounting policies (continued)

Share-based payments

The ultimate parent company, Johnson & Johnson Inc, 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

In accordance with FRS 20 (Share based payment), fair value calculations have only been made in respect of share options awarded after 7 November 2002 that remain unvested at 1 January 2006 For all other options awarded prior to 7 November 2002, the company recognises within other reserves the potential recharge from the ultimate parent company for the cost of options outstanding at the year end (based upon the difference between the option exercise prices and the market value at the year end) It has been agreed that the company will no longer be recharged on the exercise of options granted before 1 January 2000 Movements in the underlying potential recharge are reflected in the profit and loss account for the year

Upon exercise, Johnson & Johnson Inc 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 A full provision is made upon grant of the option as there is no underlying performance year 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

In addition, the company's employees may be eligible to receive Certificates of Extra Compensation (CEC's)

CEC'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, at the time of termination of employment or death while in such employment

Cash flow statement

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

Notes to the financial statements
For the year ended 1 January 2012

1. Principal accounting policies (continued)

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 Inc, whose financial statements are publicly available

2. Turnover

Turnover, all of which originated in the United Kingdom, relates primarily to the sale of surgical and hospital products

The geographical analysis of turnover by destination is as follows

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
United Kingdom	**160,406**	164,143
Europe, Middle East & Africa	**57,640**	66,868
	218,046	231,011

3. Operating profit

The operating profit is stated after charging/(crediting)

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
Amortisation - intangible fixed assets	**1,301**	1,311
Depreciation of tangible fixed assets		
- owned by the company	**9,253**	10,947
Operating lease rentals		
- Plant and machinery	**1,491**	1,617
- Land and buildings	**1,402**	1,328
Loss on foreign exchange	**180**	1,922
Research and development expenditure	**14,114**	15,283
(Profit)/loss on disposal of tangible fixed assets	**(118)**	1,147
Group management fee	**170**	233
SFO and DoJ penalties	**21,174**	-

Operating profit is stated after a recharge of £59,077,486 (2010 £61,220,139) for operating expenses incurred on behalf of DePuy (Ireland) Limited

Penalties totalling £21,173,813 are the company's allocation of fines levied against the group by the UK Serious Fraud Office (SFO) and US Department of Justice (DoJ) The penalties relate to trading practices of the company in Greece in connection with its Greek subsidiary, DePuy Hellas, between 1998 and 2006 The penalties represent the settlement reached on conclusion of the SFO and DoJ investigations during 2011

4. Auditors' remuneration

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the company	**59**	57

5. Staff costs

Staff costs were as follows

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
Wages and salaries	**37,138**	36,683
Social security costs	**3,720**	4,281
Other pension costs (note 18)	**6,402**	6,512
Share-based payments (note 22)	**(146)**	(208)
	47,114	47,268

The average monthly number of employees, including executive directors employed by the company during the year was as follows

	Year ended 1 January 2012 No	Year ended 2 January 2011 No
Management, administration and sales	**515**	521
Production	**328**	361
	843	882

'Share-based payments' include £214,697 (2010 £134,000) credited (2010 credited) in respect of the fair value of services provided and a debit (2010 credit) of £68,639 (2010 £74,000) 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

6. Directors' emoluments

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
Aggregate emoluments	181	127

Retirement benefits are accruing to three directors (2010 one director) under the company's defined benefit pension scheme and to no directors (2010 none) under the money purchase scheme

No director (2010 no director) exercised share options in the ultimate parent company during the year

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
Highest paid director		
Aggregate emoluments and benefits (excluding gains on exercise of share options and value of shares received under long term incentive schemes)	131	127
Defined benefit scheme		
Accrued pension at year end	23	19

The highest paid director did not exercise share options in the year (2010 did not exercise)

7. Interest receivable and similar income

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
On UK group banking arrangements	514	1,358

Notes to the financial statements
For the year ended 1 January 2012

8. Tax on profit on ordinary activities

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
Analysis of tax credit in the year		
Current tax (see note below)		
UK corporation tax charge on profit for the year	**13,529**	15,561
Adjustments in respect of previous years	**242**	(7,522)
Total current tax	**13,771**	8,039
Deferred tax		
Origination and reversal of timing differences	**1,024**	(69)
Adjustments in respect of previous years	**(6)**	1,190
Total deferred tax (see note 16)	**1,018**	1,121
Tax on profit on ordinary activities	**14,789**	9,160

Factors affecting tax charge for the year

The tax assessed for the year is higher (2010 lower) than the standard rate of corporation tax in the UK of 26 5% (2010 28%) The differences are explained below

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
Profit on ordinary activities before taxation	**31,170**	54,243
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (2010 28%)	**8,260**	15,188
Effects of		
Expenses not deductible for tax purposes	**6,508**	1,120
Accelerated capital allowances and other timing differences	**(683)**	181
Adjustments in respect of prior periods	**242**	(7,522)
Non-taxable income	**(75)**	(194)
Additional deduction for research and development	**(481)**	(734)
Total current tax charge for the year (see note above)	**13,771**	8,039

8. Tax on profit on ordinary activities (continued)

Factors affecting current and future tax charges

The standard rate of corporation tax in the UK changed from 28% to 26% with effect from 1 April 2011 Accordingly, the company's profits for this accounting year are taxed at an effective rate of 26 5%

On 5 July 2011 a change in the UK main corporation tax rate to 25% was substantively enacted to be in effect from 1 April 2012, as a result the relevant deferred tax balances have been re-measured

Further reductions to the UK corporation tax rate were announced in the March 2012 and prior Budgets On 26 March 2012 a 1% reduction in the main rate to 24% was substantively enacted with effect from 1 April 2012 In addition a further 1% reduction to 23% with effect from 1 April 2013 was substantively enacted on 3 July 2012 The final change announced to date, which will be enacted separately, proposes to reduce the rate by a further 1% on 1 April 2014 The changes listed above had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements

9. Dividends

	Year ended 1 January 2012 £000	Year ended 2 January 2011 £000
Final paid £0 643 (2010 £1 072) per £1 ordinary share	**30,000**	50,000

10. Intangible fixed assets

	Know-how £000	Purchased goodwill £000	Technology transfer £000	Total £000
Cost				
At 3 January 2011 and 1 January 2012	**17,168**	**8,095**	**29,787**	**55,050**
Accumulated amortisation				
At 3 January 2011	**13,613**	**6,636**	**29,787**	**50,036**
Charge for the year	**896**	**405**	**-**	**1,301**
At 1 January 2012	**14,509**	**7,041**	**29,787**	**51,337**
Net book amount				
At 1 January 2012	**2,659**	**1,054**	**-**	**3,713**
At 2 January 2011	3,555	1,459	-	5,014

The technology transfer represents DePuy International Limited's share of a worldwide licence, to manufacture and sell certain orthopaedic products The licence is being amortised over its useful life of 11 years

11. Tangible fixed assets

	Freehold land and buildings £000	Leasehold improve-ments £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Assets under construction £000	Total £000
Cost						
At 3 January 2011	7,581	12,064	85,228	13,129	2,667	120,669
Additions	-	-	5,830	-	1,749	7,579
Disposals	(5,476)	(378)	(13,240)	(853)	-	(19,947)
Transfers	39	370	2,064	447	(2,920)	-
At 1 January 2012	2,144	12,056	79,882	12,723	1,496	108,301
Accumulated depreciation and impairment						
At 3 January 2011	4,636	6,993	67,531	8,649	-	87,809
Charge for the year	241	760	7,547	705	-	9,253
On disposals	(5,451)	(378)	(12,995)	(910)	-	(19,734)
Transfers	1,031	-	(1,126)	95	-	-
At 1 January 2012	457	7,375	60,957	8,539	-	77,328
Net book amount						
At 1 January 2012	1,687	4,681	18,925	4,184	1,496	30,973
At 2 January 2011	2,945	5,071	17,697	4,480	2,667	32,860

Notes to the financial statements
For the year ended 1 January 2012

12. Fixed asset investments

	£000
Cost	
At 3 January 2011 and 1 January 2012	5,725
Amounts written off	
At 3 January 2011 and 1 January 2012	(4,058)
Net book amount	
At 3 January 2011 and 1 January 2012	**1,667**

The company holds shares in the following principal subsidiary undertakings, all of which are concerned with the manufacture and/or supply of surgical and hospital products unless stated The whole of the ordinary share capitals of the subsidiary undertakings are owned by the company All subsidiaries operate principally within their country of incorporation

(1) Registered in England and Wales	Shares held 1 January 2012
BCCO (1992) Limited (non-trading) £1 ordinary shares	8,299
Tweedbank Surgical Engineering Limited (non-trading) £1 ordinary shares	1,000
CMW Laboratories Limited (non-trading) £1 ordinary shares	4,995
Orthogenesis Limited (non-trading) £1 ordinary shares	1
Charles F Thackray (1991) Limited (non-trading) £1 ordinary shares	999
Charnley Limited (non-trading) £1 ordinary shares	99
DePuy Motech Limited (non-trading) £1 ordinary shares	100

(2) Incorporated in Sweden	Shares held 1 January 2012
Cemvac Systems AB (non-trading) ordinary 100 Swedish Krone shares	5,000

(3) Incorporated in Greece	Shares held 1 January 2012
DePuy Hellas S A (non-trading) ordinary €2 93 shares	60,000

The directors are of the opinion that the value of the company's investments in its subsidiaries is not less than the book value Where this is not the case, an impairment charge has been provided to reduce the book value to its estimated recoverable amount

13 Stocks

	1 January 2012 £000	2 January 2011 £000
Raw materials and consumables	**2,907**	2,910
Work in progress	**1,795**	1,579
Finished goods and goods for resale	**231**	5
	4,933	4,494

14. Debtors

	1 January 2012 £000	2 January 2011 £000
Amounts falling due after more than one year		
Deferred tax asset (see note 16)	**2,008**	3,026
Amounts falling due within one year		
Trade debtors	**21,439**	19,009
Amounts owed by group undertakings	**237,607**	251,351
Prepayments and accrued income	**1,334**	2,607
	262,388	275,993

Amounts owed by group undertakings includes an amount of £156,353,275 (2010 £179,135,000) invested with the In-House Bank 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 Bank 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 Bank 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 optimizing the use and investment of the liquidities available within the In-House Bank 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

	1 January 2012 £000	2 January 2011 £000
Trade creditors	**1,513**	2,393
Amounts owed to group undertakings	**207,825**	197,630
Corporation tax	**2,000**	6,986
Other taxation and social security	**126**	36
Accruals and deferred income	**21,854**	25,887
	233,318	232,932

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment

16. Deferred tax

	1 January 2012 £000	2 January 2011 £000
At beginning of year	**3,026**	4,147
Deferred tax movement in profit and loss account	**(1,018)**	(1,121)
At end of year	**2,008**	3,026

The deferred tax asset is made up as follows

	1 January 2012 £000	2 January 2011 £000
Accelerated capital allowances	**535**	380
Short term timing differences	**1,473**	2,646
	2,008	3,026

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

17 Provisions for liabilities

	NI on share options £000	Product warranty £000	Severance £000	Certificates of Extra Compensation £000	Total £000
At 3 January 2011	**555**	**498**	**3,365**	**1,406**	**5,824**
Charged/(credited) to profit and loss account	**193**	**(271)**	**-**	**(224)**	**(302)**
Utilised during the year	**(167)**	**(5)**	**(1,975)**	**(930)**	**(3,077)**
At 1 January 2012	**581**	**222**	**1,390**	**252**	**2,445**

NI on 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

Product warranty

The provision represents the potential liability that may arise over the coming five year period relating to the product hazard warning notices issued for certain products

Severance

This provision is in respect of the closure of the Beeston plant and is expected to be utilised by the end of 2012

Certificates of Extra Compensation

This provision is explained within note 1 and is expected to be utilised when the relevant individuals reach retirement

18. Pension commitments

DePuy International Limited participates in two 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 35" and a defined contribution plan with some underlying guarantees for employees called the "Johnson & Johnson UK Group Retirement Plan 16"

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

Johnson & Johnson UK Group Retirement Plan 35 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 35 by the company in the year 3 January 2011 to 1 January 2012 amounted to £5,622,000

Contributions paid by the company to Plan 16 in the year 3 January 2011 to 1 January 2012 amounted to £780,000

At the end of 2011, no contributions were outstanding

For comparison, during 2010 the company paid contributions of £5,743,000 into Plan 35 and £769,000 into Plan 16

The best estimate of the company contributions expected in the period 2 January 2012 to 30 December 2012 to be paid to Johnson & Johnson UK Group Retirement Plan 35 is £6,912,000

The best estimate of the company contributions expected in the period 2 January 2012 to 30 December 2012 to be paid to Johnson & Johnson UK Group Retirement Plan 16 is £238,000

The company is also required to disclose the overall funding position of the UK Group Retirement Plan (both Plan 35 and Plan 16)

Composition of the Plan

The actuarial valuation of Plan 35 as at 31 March 2011 is currently being carried out The preliminary valuation results at this date have been updated to 1 January 2012 by a qualified independent actuary The major assumptions used by the actuary were (in nominal terms)

	2011	2010	2009	2008	2007
Rate of increases in salaries	**4 25%**	4 25%	3 00%	4 00%	4 00%
Rate of increase in pensions in payment (where 5% LPI applies)	**3 00%**	3 00%	3 00%	2 75%	2 75%
Discount rate	**5 00%**	5 50%	5 75%	6 75%	5 75%
Inflation assumption	**3 25%**	3 25%	3 25%	3 00%	3 00%

In addition to the major financial assumptions above, it is assumed that male members currently aged 45 will live for 23 6 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 Plan 35 and Plan 16 at market value gives an aggregate pension scheme deficit at 1 January 2012, for the whole UK Johnson & Johnson Group, of £147,212,000

Notes to the financial statements
For the year ended 1 January 2012

18. Pension commitments (continued)

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

Life Assurance

DePuy International Limited participates in an approved life assurance plan The premiums paid to these arrangements during 2011 were

	£000
Johnson & Johnson UK Approved Life Assurance Plan	**112**

19 Share capital

	1 January 2012 £000	2 January 2011 £000
Allotted and fully paid		
46,653,706 ordinary shares of £1 each	**46,654**	46,654

20. Reserves

	Other reserves £000	Profit and loss account £000
At 3 January 2011	4,171	31,874
Profit for the financial year	-	16,381
Dividends (note 9)	-	(30,000)
Share based payment services provided	809	-
Share based payment recharge from ultimate parent	(1,311)	-
At 1 January 2012	3,669	18,255

21. Reconciliation of movement in shareholders' funds

	1 January 2012 £000	2 January 2011 £000
Opening shareholders' funds	82,699	88,460
Profit for the financial year	16,381	45,083
Dividends (note 9)	(30,000)	(50,000)
Share based payment services provided	809	606
Share based payment recharge from ultimate parent	(1,311)	(1,450)
Closing shareholders' funds	68,578	82,699

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22. Share based payments

Share options

At 1 January 2012 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 and 2005 UK Approved Stock Option Plans, the 2000 and 2005 UK Unapproved Stock Option Plans, the 2000 and 2005 Non-Qualifying Option Plans and the 2002 and 2005 French Stock Option Plans All of these arrangements are settled in equity

A reconciliation of option movements over the year to 1 January 2012 is shown below

	1 January 2012		2 January 2011	
	Number ('000)	**Weighted average exercise price**	Number ('000)	Weighted average exercise price
Outstanding at start of year	**387**	**$60 87**	455	$60 67
Granted	**37**	**$62 20**	45	$62 62
Forfeited/Cancelled	**(46)**	**$61 16**	(68)	$64 08
Exercised	**(51)**	**$59 72**	(38)	$54 74
Transferred	**(22)**	**-**	(7)	-
Outstanding at end of year	**305**	**$61 43**	387	$60 87
Exercisable at end of year	**216**		229	

The weighted average fair value of options granted in the year was $273,799 (2010 $362,089)

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

1 January 2012				2 January 2011			
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
$52 20	**26**	**1 1 yrs**	**1 1 yrs**	$52.20	36	2 1 yrs	2 1 yrs
$53 93	**23**	**2 1 yrs**	**2 1 yrs**	$53 93	35	3 1 yrs	3 1 yrs
$58 33	**31**	**7 1 yrs**	**7 1 yrs**	$58 33	47	8 1 yrs	8 1 yrs
$58 34	**28**	**4 1 yrs**	**4.1 yrs**	$58 34	36	5 1 yrs	5 1 yrs
$61 75	**26**	**6 1 yrs**	**6 1 yrs**	$61 75	67	7 1 yrs	7 1 yrs
$62 20	**32**	**9 1 yrs**	**9 1 yrs**	$62 62	41	9 1 yrs	9 1 yrs
$62 62	**26**	**8 1 yrs**	**8 1 yrs**	$65 62	41	6 1 yrs	6 1 yrs
$65 62	**37**	**5 1 yrs**	**5 1 yrs**	$66 18	84	4 1 yrs	4 1 yrs
$66 18	**76**	**3 1 yrs**	**3 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

The total credit (2010 credit) for the year relating to employee share based payment plans was £214,697 (2010 £134,431), all of which related to equity-settled share based payment transactions After deferred tax at 25% (2010 27%), the total credit (2010 credit) was £161,023 (2010 £98,135)

22. Share based payments (continued)

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

	1 January 2012	2 January 2011
Share price at grant date and exercise price	**$62 20**	$62 62
Number of employees	**31**	25
Shares granted in year	**36,644**	45,088
Vesting period (years)	**3 years**	3 years
Expected volatility	**18 27%**	17 43%
Option life (years)	**10 years**	10 years
Expected life (years)	**6 years**	6 years
Risk free rate	**2 41%**	2 78%
Expected dividend yield	**3 60%**	3 30%
Fair value per option	**$7 47**	$8 03

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

The company also grants Restricted Stock Units (RSU's) These were first granted in 2006 and have a vesting period of 3 years The average fair value of these units granted during the year was $55 84, 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

	Number of shares ('000)
Shares at 31 December 2010	85
Stock granted	37
Stock forfeited	(8)
Stock issued	(28)
Stock transferred	(5)
Shares at 30 December 2011	**81**

Certificates of Extra Compensation

In addition, the company's employees may be eligible to receive Certificates of Extra Compensation (CEC's)

CEC'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 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

22. Share based payments (continued)

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 £111,513 (2010 £86,460) for employers' national insurance has been made at the balance sheet date based on the year-end share price of $65 58 (2010 $61 85) It has been assumed that 100% of shares held by employees at the balance sheet date will be exercised

In addition an accrual of £469,174 (2010 £468,904) has been made for the employers' national insurance on restricted stock units

23 Commitments and contingencies

Capital expenditure commitments

	1 January 2012 £000	2 January 2011 £000
Future capital expenditure contracted but not provided for	**251**	324

Annual commitments under non-cancellable operating leases

At 1 January 2012 the company had annual commitments under non-cancellable operating leases expiring as follows

	1 January 2012		2 January 2011	
	Land & buildings £000	**Other £000**	Land & buildings £000	Other £000
Within one year	-	**870**	-	764
Within two to five years	**1,123**	**2,031**	780	1,174
After five years	**330**	-	703	-
	1,453	**2,901**	1,483	1,938

Contingent Liabilities	1 January 2012 £000	2 January 2011 £000
Bank guarantees	**3,000**	3,000
Hedged currency contract commitments	-	159
	3,000	3,159

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24. Post balance sheet events

On 2 July 2012 the UK sales business of DePuy International Limited was sold to Johnson & Johnson Medical Limited at market value The consideration received by DePuy International Limited in exchange for the business was £52m

Prior to the sale the UK sales business generated annual profits in excess of £7m for DePuy International Limited which will cease to be generated for the company with effect from 2 July 2012

25. Ultimate and immediate parent undertaking and controlling party

The immediate parent company is Johnson & Johnson Medical Limited

The directors regard Johnson & Johnson Inc, 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