Registered number 3319712

DePuy International Limited

Annual report

for the year ended 31 December 2008

DePuy International Limited

Annual report
for the year ended 31 December 2008

Contents

DePuy International Limited

Directors' report for the year ended 31 December 2008

The directors present their report and the audited financial statements of the company for the year ended 31 December 2008.

Business review and principal activities
DePuy International Limited manufacture and supply orthopaedic and other medical and surgical products, both in the UK and overseas.

The results of the company show a pre-tax profit of £42,970,000 (2007: £39,824,000) for the year and sales of £247,030,000 (2007: £234,805,000).

Future outlook
The markets in which we operate are expected to remain competitive in 2009. 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.

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 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 Ltd manage the group's operations on a divisional basis. The business is managed using a set of financial and non-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 grown by 5.21% (2007: 14.82%) year on year which is in line with expectations and reflects growth across all developing areas of the business. The gross profit percentage has risen from 32.82% in 2007 to 33.86% in the current year again reflecting strong performance across the core businesses

Financial risk management
The J&J group's financing and financial risk management activities are centralised into a group treasury function. Details of the risk management activities are disclosed in the financial statements of Johnson & Johnson Management Limited.

DePuy International Limited

Directors' report for the year ended 31 December 2008 (continued)

Directors and their interests
The directors who held office during the year were as follows:

R Twomey
S Kowalski (resigned 31 May 2008)
P Wells (appointed 01 June 2008)
D Basquill (resigned 15 July 2009)
A Crossley (appointed 16 July 2009)

None of the directors had any beneficial interest in the shares of the company or interest in share capital of other group companies registered in the United Kingdom at either the beginning or the end of the year.

The company's ultimate parent undertaking is incorporated outside the United Kingdom. As permitted by statutory instrument, the register of directors' shareholdings maintained in accordance with Section 325 of the Companies Act 1985, does not include the interests of directors in the shares of the parent undertaking.

Policy on payment of creditors
Standard terms of payment are 30 days after date of invoice and the company endeavours to pay within these terms at all times. Terms of payment are agreed at the time of negotiation for supply. If any difference from standard terms is required, it must first be authorised by the financial controller. Trade creditors at the year end represented 87 days of purchases (2007: 71 days).

Research and development
During the year the company concentrated its research and development expenditure on new and improved medical products, particularly orthopaedic implants.

Charitable donations
During the year the company made charitable donations amounting to £4,662,000 (2007: £4,006,000).

Employees
It is the policy of the company to employ the best qualified personnel and provide equal opportunity in the selection and advancement of employees regardless of race, colour, national origin, religious persuasion, sex or marital status.

Employees are regularly provided with a wide range of information concerning the performance and prospects of the business in which they are involved by means of regular Team Briefings and Company President presentations which allow the views and opinions of personnel to be taken into account.

It is also the company's policy to give full and fair consideration to disabled applicants for employment, having regard to their particular aptitudes and abilities. If any employee becomes disabled the objective is the continued provision of suitable employment either in the same or an alternative position with appropriate training if necessary.

It is the policy of the company to enlist the support of all staff in providing the safest and healthiest environment within its premises that are reasonably practical for all its employees and visitors.

DePuy International Limited

Directors' report for the year ended 31 December 2008 (continued)

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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
The directors of the company at the date of this report confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- each director has taken all steps he ought to have taken as a director in order to make himself aware of any audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Auditors
In accordance with section 384 of the Companies Act 1985, a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the Board

A Crossley
Secretary
26 October 2009

DePuy International Limited

Independent auditors' report to the members of DePuy International Limited

We have audited the financial statements of DePuy International Limited for the year ended 31 December 2008 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for, and only for, the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the information given in the Directors' report is consistent with the financial statements. In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
30 October 2009

DePuy International Limited

Profit and loss account for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Turnover	1	**247,030**	234,805
Cost of sales		**(163,374)**	(157,827)
Gross profit		**83,656**	76,978
Net operating expenses	2	**(48,838)**	(44,735)
Operating profit		**34,818**	32,243
Net interest receivable	3	**8,172**	7,594
Other finance expense		**(20)**	(13)
Profit on ordinary activities before taxation	5	**42,970**	39,824
Tax on profit on ordinary activities	8	**(20,740)**	(18,995)
Profit for the financial year	18	**22,230**	20,829

All amounts relate to continuing operations.

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

DePuy International Limited

Statement of total recognised gains and losses for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Profit for the financial year		**22,230**	20,829
Dividends paid	4	**(33,000)**	(25,000)
Retained loss for the financial year		**(10,770)**	(4,171)
Share Options outside the scope of FRS 20	16	**396**	442
Total recognised gains and losses relating to the year		**(10,374)**	(3,729)

DePuy International Limited

Balance sheet as at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Intangible assets	9	**10,334**	14,344
Tangible assets	10	**41,250**	38,027
Investments	11	**1,667**	1,667
		53,251	54,038
Current assets			
Stock	12	**5,696**	4,815
Debtors	13	**97,863**	74,592
Cash at bank and in hand		**139,772**	127,857
		243,331	207,264
Creditors: amounts falling due within one year	14	**(229,993)**	(183,269)
Net current assets		**13,338**	23,995
Total assets less current liabilities		**66,589**	78,033
Provisions for liabilities and charges	15	**(1,153)**	(2,223)
Net assets		**65,436**	75,810
Capital and reserves			
Called up share capital	17	**46,654**	46,654
Profit and loss account	18	**18,782**	29,156
Equity shareholders' funds	19	**65,436**	75,810

The financial statements on pages 5 to 28 were approved by the board of directors on 30TH October 2009 and were signed on its behalf by:

R Twomey
Director

DePuy International Limited

Accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting
These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Turnover
Turnover represents the total amount receivable, excluding Value Added Tax, in the ordinary course of business for goods sold and services provided. Turnover is recognised once the title of the relevant goods has passed or services have been performed.

Cash flow statement and related party disclosures
The company is a wholly owned subsidiary of Johnson & Johnson and is included in the consolidated financial statements, which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996). The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Johnson & Johnson group.

Consolidation
The financial statements contain information about DePuy International as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare and deliver consolidated financial statements as it and its subsidiary undertakings are included in the audited consolidated financial statements of Johnson & Johnson (see note 23).

Investments
Investments in subsidiary undertakings are stated at cost less provisions to reduce the carrying value of an investment to its estimated recoverable amount, that is the higher of net realisable value and value in use, where in the opinion of the directors there has been impairment.

The value in use is determined from estimated discounted future net cash flows. In assessing the value in use, a discount rate of 9.5% (2007: 9.5%) has been used which, in the opinion of the directors, reflects the risk inherent in those cash flows.

Loaner instruments
Instrument loaned to hospitals have previously been held within prepayments and released to the profit and loss account over the term of the loan period. In the current year they have been transferred to tangible fixed assets and will be depreciated along with plant and equipment.

Accounting policies (continued)

Tangible fixed assets
The cost of tangible fixed assets is their purchase cost, together with incidental costs of acquisition. Depreciation is provided on a straight line basis and is intended to write-off the cost of tangible fixed assets over their expected useful economic lives at the following rates:

Freehold land and buildings	50 years
Leasehold improvements	over the term of the lease
Plant and machinery	3 - 12 years
Fixtures, fittings and equipment	5 - 10 years

Assets in the course of construction are not depreciated and will be reclassified to the appropriate asset category on completion of the assets in question. Depreciation will commence once the assets have been reclassified.

Stock
Stock and work in progress is valued at the lower of cost and net realisable value. In the case of manufactured products, cost includes attributable manufacturing overheads based on the normal level of activity. Net realisable value is based on estimated selling price less further costs to be incurred to completion and disposal. Provision is made where necessary for obsolete, slow moving and defective stocks.

Pension costs
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 actual 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 periods 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.

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Accounting policies (continued)

Taxation
The charge for taxation is based on the result for the year. In accordance with FRS 19, deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is recognised in respect of tax losses to the extent that they are regarded as recoverable on the basis that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities recognised have not been discounted.

Foreign exchange
Transactions denominated in a foreign currency are translated at an average rate for the year. Assets and liabilities in foreign currencies are translated into sterling at the rate ruling at the year end. Exchange differences arising from the retranslation of foreign currency denominated assets and liabilities together with other exchange differences arising in the year are included in the profit and loss account.

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.

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

Operating leases
Operating lease rentals are charged to the profit and loss account on a straight line basis over the terms of the lease.

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

Share-based payment
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, with a corresponding increase in Other Reserves (representing a capital contribution by the ultimate parent). The total amount to be expensed over the vesting period 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 income statement, with a corresponding adjustment to Other Reserves.

Accounting policies (continued)

Share-based payment (continued)
In accordance with FRS 20, fair value calculations have only been made in respect of share options awarded after 7 November 2002 that remain unvested at 1 January 2007. 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 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 period. 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.

Cash-based payment
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. A liability in relation to CEC's is recognised in the balance sheet for these transactions.

Notes to the financial statements for the year ended 31 December 2008

1 Turnover

Turnover, all of which originated in the United Kingdom, relates primarily to the sale of surgical and hospital products. The analysis of turnover by geographical area is as follows:

	2008	2007
	£'000	£'000
United Kingdom	**158,212**	148,096
Europe, Middle East & Africa	**88,818**	86,709
	247,030	234,805

2 Net operating expenses

	2008	2007
	£'000	£'000
Distribution costs	**2,869**	7,102
Administrative expenses	**45,969**	37,633
	48,838	44,735

Net operating expenses are stated after a recharge of £51,811,556 (2007: £42,093,046) for operating expenses incurred on behalf of DePuy (Ireland) Limited.

3 Net interest receivable

	2008	2007
	£'000	£'000
Bank interest receivable	**8,172**	7,594

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Notes to the financial statements for the year ended 31 December 2008 (continued)

4 Dividends

	2008 £'000	2007 £'000
Dividend paid	**33,000**	25,000

A dividend of 70.74p per ordinary share has been paid (2007: 16.72p per share).

5 Profit on ordinary activities before taxation

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting) the following:		
Depreciation of tangible fixed assets		
- Owned assets	**6,022**	7,397
Amortisation of intangible assets	**4,010**	4,010
Operating lease rentals		
- Plant & machinery	**1,611**	1,285
- Land and buildings	**1,422**	1,427
Auditors' remuneration		
- Statutory audit services	**101**	78
- Other services relating to taxation – compliance	**-**	-
- Other services relating to taxation – advisory	**143**	113
Research and development expenditure	**18,876**	17,577
Loss on sale of fixed assets	**100**	1,533
Group management fee	**555**	496

Notes to the financial statements for the year ended 31 December 2008 (continued)

6 Directors' emoluments

	2008 £'000	2007 £'000
Aggregate emoluments	**398**	484
Number of directors to whom retirement benefits are accruing under defined benefit schemes	**2**	3

Highest paid director:		
Aggregate emoluments	**296**	238
Defined benefit pension scheme:		
Accrued pension at end of year	**39**	42

7 Staff numbers and costs

The average monthly number of people (including directors) employed by the company during the year, analysed by category, was as follows:

	2008	2007
Management, administration and sales	**477**	435
Production	**358**	358
	835	793

The aggregate payroll costs of these persons were as follows:

	2008 £'000	2007 £'000
Wages and salaries	**37,300**	37,085
Social security costs	**3,038**	3,202
Other pension costs (note 21)	**10,426**	4,949
	50,764	45,236

Notes to the financial statements for the year ended 31 December 2008 (continued)

8 Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2008 £'000	2007 £'000
Current tax:		
UK corporation tax on profits of the year	**13,157**	12,984
Adjustment in respect of previous years	**8,839**	7,628
Total current tax charge	**21,996**	20,612
Deferred tax:		
Origination and reversal of timing differences (note 15)	**(1,255)**	(1,617)
Total deferred tax credit	**(1,255)**	(1,617)
Tax on profit on ordinary activities	**20,740**	18,995

(b) Factors affecting the tax charge in the year:

The tax assessed for the year is higher (2007: higher) than the standard rate of corporation tax in the UK (28.5%). The differences are explained below:

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	**42,970**	39,824
Profit on ordinary activities multiplied by standard rate in the UK 28% (2007: 30%)	**12,246**	11,947
Effects of:		
Expenses/(income) not deductible for tax purposes	**(300)**	199
Accelerated capital allowances and other timing differences	**1,211**	838
Adjustments to tax charge in respect of previous years	**8,839**	7,628
Current tax charge for the year	**21,996**	20,612

Notes to the financial statements for the year ended 31 December 2008 (continued)

9 Intangible assets

	Know-how £'000	Purchased goodwill £'000	Technology transfer £'000	Total £'000
Cost				
At 1 January and 31 December 2008	**17,168**	**8,095**	**29,787**	**55,050**
Accumulated amortisation				
At 1 January 2008	10,924	5,421	24,361	40,706
Charge for the year	897	405	2,708	4,010
At 31 December 2008	**11,821**	**5,826**	**27,069**	**44,716**
Net book amount				
At 31 December 2008	**5,347**	**2,269**	**2,718**	**10,334**
At 31 December 2007	6,244	2,674	5,426	14,344

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

Notes to the financial statements for the year ended 31 December 2008 (continued)

10 Tangible assets

	Freehold land and buildings	Leasehold improvements	Plant and machinery	Fixtures, fittings & equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2008	7,654	12,061	50,363	12,893	1,990	84,961
Additions	-	-	4,431	7	3,748	8,186
Transfers	-	-	806	1	(807)	-
Instrument Transfer	-	-	24,999	-	-	24,999
Disposals	-	-	(1,715)	-	-	(1,715)
At 31 December 2008	**7,654**	**12,061**	**78,884**	**12,901**	**4,931**	**116,431**
Accumulated depreciation						
At 1 January 2008	2,760	4,767	33,052	6,355	-	46,934
Charge for the year	170	742	4,187	923	-	6,022
Instrument Transfer	-	-	23,761	-	-	23,761
Disposals	-	-	(1,536)	-	-	(1,536)
At 31 December 2008	**2,930**	**5,509**	**59,464**	**7,278**	-	**75,181**
Net book amount						
At 31 December 2008	**4,724**	**6,552**	**19,420**	**5,623**	**4,931**	**41,250**
At 31 December 2007	4,894	7,294	17,311	6,538	1,990	38,027

The instrument transfer is in relation to items loaned to hospitals. Previously these have been held within prepayments. In the current year these have been transferred to tangible assets at net book value and will be depreciated going forward as plant and equipment. The change in accounting treatment has not affected the net asset position of the company.

Notes to the financial statements for the year ended 31 December 2008 (continued)

11 Investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2008 and 31 December 2008	5,725
Amounts written off	
At 1 January 2008 and 31 December 2008	(4,058)
Carrying value	
At 1 January 2008 and 31 December 2008	**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 31 December 2008
BCCO (1992) Limited (non-trading)	8,299
Tweedbank Surgical Engineering Limited (non-trading)	1,000
CMW Laboratories Limited (non-trading)	4,995
Orthogenesis Limited (non-trading)	1
Charles F Thackray (1991) Limited (non-trading)	999
Charnley Limited (non-trading)	99
DePuy Motech Limited (non-trading)	100

The above holdings are of £1 ordinary shares.

Notes to the financial statements for the year ended 31 December 2008 (continued)

11 Investments (continued)

(2) Incorporated in Sweden	Shares held 31 December 2008
Cemvac Systems AB (non-trading)	**5,000**

The above holdings are ordinary 100 Swedish Krone shares.

(3) Incorporated in Greece	Shares held 31 December 2008
DePuy Hellas S.A. (non-trading)	**60,000**

The above holdings are ordinary 2.93 Euro shares.

The directors are of the opinion that the value of the company's investment 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.

12 Stock

	2008	2007
	£'000	£'000
Raw materials and consumables	**3,323**	2,658
Work in progress	**2,067**	1,843
Finished goods and goods for resale	**306**	314
	5,696	4,815

Notes to the financial statements for the year ended 31 December 2008 (continued)

13 Debtors

	2008 £'000	2007 £'000
Trade debtors	**18,470**	19,228
Amounts owed by group undertakings	**73,865**	50,961
Prepayments	**5,528**	4,319
Other taxation and social security	**-**	84
	97,863	74,592

14 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	**6,858**	5,656
Amounts owed to group undertakings	**163,451**	125,170
Corporation tax	**34,278**	25,357
Other taxation and social security	**50**	-
Accruals and deferred income	**25,356**	27,086
	229,993	183,269

Notes to the financial statements for the year ended 31 December 2008 (continued)

15 Provisions for liabilities and charges

	Provisions for share options £'000	Product warranty £'000	Deferred taxation £'000	CEC £'000	Total £'000
At 1 January 2008	294	1,794	28	107	2,223
Charge/(credit) to the profit and loss account	(64)	(25)	(1,255)	439	(905)
Utilised during the year	(133)	(32)	-	-	(165)
At 31 December 2008	**97**	**1,737**	**(1,227)**	**546**	**1,153**

Provision for share options

The provision represents employers' National Insurance on unexercised share options (see note 16). This is expected to be utilised within the next 10 years.

Product warranty provision

The product warranty 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.

CEC

The provision represents the liability due in respect of employees who may be eligible to receive Certificates of Extra Compensation.

Deferred taxation

Deferred taxation can be analysed as follows:

	Amount provided 2008 £'000	Amount provided 2007 £'000
Difference between accumulated depreciation and capital allowances	**178**	1,254
Short term timing differences	**(1,405)**	(1,226)
Deferred tax liability excluding that relating to pension liability	**(1,227)**	28
Total deferred tax liability	**(1,227)**	28

Notes to the financial statements for the year ended 31 December 2008 (continued)

16 Share-based payment

Share options

At 31 December 2008 the Company's employees were members of 9 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 2005 UK Unapproved Stock Option plan, the 2000 and 2005 Non-Qualified Option Plans, the 2000 ISO Stock Option plan, the 2002 and 2005 French Stock Option plan and the 2000 UK Stock plan. All of these arrangements are settled in equity.

A reconciliation of option movements over the year to 31 December 2008 is shown below:

	2008		2007	
	Number ('000)	**Weighted average exercise price**	**Number ('000)**	**Weighted average exercise price**
Outstanding at start of year	**396**	**$60.10**	390	$58.65
Granted	**86**	**$61.75**	78	$65.62
Forfeited/Cancelled	**(16)**	**$62.81**	(37)	$63.90
Exercised	**(48)**	**$56.08**	(41)	$53.13
Transferred	**9**	**-**	6	-
Outstanding at end of year	**427**	**$60.79**	396	$60.10
Exercisable at end of year	**222**		145	

The weighted average fair value of options granted in the year was $661,446 (2007: $916,259).

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

2008				2007			
Weighted average exercise price	**Number of shares ('000)**	**Weighted average remaining life: Expected**	**Weighted average remaining life: Contractual**	Weighted average exercise price	Number of shares ('000)	Weighted average remaining life: Expected	Weighted average remaining life: Contractual
$52.20	52	4.1 yrs	4.1 yrs	$52.20	71	5.1 yrs	5.1 yrs
$53.93	60	5.1 yrs	5.1 yrs	$53.93	75	6.1 yrs	6.1 yrs
$58.34	57	7.1 yrs	7.1 yrs	$58.34	59	8.1 yrs	8.1 yrs
$61.75	80	9.1 yrs	9.1 yrs	$65.62	69	9.1 yrs	9.1 yrs
$65.62	67	9.1 yrs	9.1 yrs	$66.18	122	7.1 yrs	7.1 yrs
$66.18	111	6.1 yrs	6.1 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.

Notes to the financial statements for the year ended 31 December 2008 (continued)

16 Share-based payment (continued)

The total charge for the year relating to employee share based payment plans was £316,027 (2007: £392,496), all of which related to equity-settled share based payment transactions. After deferred tax at 28% (2007: 28%), the total charge was £227,539 (2007: £282,597).

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:

	2008	2007
Share price at grant date and exercise price	**$61.75**	$65.62
Number of employees	**74**	77
Shares granted in the year	**86,407**	78,467
Vesting period (years)	**3 years**	3 years
Expected volatility	**15.0%**	14.7%
Option life (years)	**10 years**	10 years
Expected life (years)	**6 years**	6 years
Risk free rate	**2.97%**	4.78%
Expected dividend yield	**2.90%**	2.50%
Fair value per option	**$7.66**	$11.68

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 $56.61, 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.

Restricted Stock Units	**Number of shares ('000)**
Shares at 1 January 2008	52
Stock granted	42
Stock forfeited	(6)
Stock transferred	1
Shares at 31 December 2008	89

Notes to the financial statements for the year ended 31 December 2008 (continued)

16 Share-based payment (continued)

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.

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 £79,679 (2007: £261,321) for employers' national insurance has been made at the balance sheet date based on the year-end share price of $58.56. It has been assumed that 100% of shares held by employees at the balance sheet date will be exercised.

In addition an accrual of £15,617 (2007: £32,038) has been made for the employers' National Insurance on restricted stock units.

17 Called up share capital

	£'000
At 31 December 2007 and 31 December 2008	
Authorised, allotted, called up and fully paid:	
46,653,706 £1 ordinary shares	46,654

DePuy International Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

18 Profit and loss account

	£'000
At 1 January 2008	29,156
Profit for the financial year	22,230
Dividends	(33,000)
Share based Payments :	
- Value of services provided	396
At 31 December 2008	**18,782**

19 Reconciliation of movements in shareholders' funds

	2008	2007
	£'000	£'000
Profit for the financial year	**22,230**	20,829
Dividends	**(33,000)**	(25,000)
	(10,770)	(4,171)
Movement on share options (see notes 16 and 18)	**396**	442
Movement on deferred tax relating to pension scheme	-	-
Net deduction from shareholders' funds	**(10,374)**	(3,729)
Shareholders' funds as at 1 January	**75,810**	79,539
Shareholders' funds as at 31 December	**65,436**	75,810

Notes to the financial statements for the year ended 31 December 2008 (continued)

20 Capital and other commitments

Contracted capital commitments for which no provision has been made in the financial statements total £1,360,607 as at 31 December 2008 (2007:£1,140,849).

At 31 December 2008 the company had annual commitments under non-cancellable operating leases expiring as follows:

	2008 Land and buildings	**2008 Other**	2007 Land and buildings	2007 Other
	£'000	**£'000**	£'000	£'000
Within one year	**-**	**398**	-	221
Within two to five years	**-**	**1,353**	-	942
Over five years	**1,435**	**-**	1,427	-
	1,435	**1,751**	1,427	1,163

21 Pension costs

DePuy 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"
- A funded hybrid benefit Plan called "Johnson & Johnson UK Group retirement Plan 16" which commenced as a scheme in its own right on 1 April 2008, having previously been a subsection of the scheme above.

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 J&J'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.

21 Pension costs (continued)

Contributions paid to the Johnson & Johnson UK group Retirement plan by the Company in the period 1 January 2008 to 31 December 2008 amounted to £10,426,000. Of this amount, £4,733,000 was in respect of Plan 35 regular contributions and £193,000 was in respect of Plan 16 regular contributions paid before the demerger of the funded Plan. This total also included a special one-off deficit reduction lump sum payment of £5,500,000.

Contributions paid by the Company to Plan 16, post-demerger, amounted to £314,000.

For comparison, during 2007 the Company paid contributions of £4,949,000 into the combined Plan.

The company is also required to disclose the overall funding position of the UK Group retirement Plan (both Plan 35 and Plan 16). For this purpose, the April 2005 actuarial valuation has been updated to 31 December 2008 by a qualified, independent actuary. The principal assumptions used to calculate the FRS17 liabilities were as follows: discount rate of 6.75% per annum, salary increases (including promotion) of 4% per annum; inflation of 3% per annum; guaranteed annual increases to pensions in payment (in line with inflation up to 5%) of 2.75% per annum; guaranteed annual increases to pensions in payment (in line with inflation up to 2.5%) of 2.25% per annum.

In addition to the financial assumptions above, it is assumed that all members commute the maximum permissible amount of their pension for cash, in line with current commutation terms, and retire between the ages of 60 and 65 with a life expectancy of 25 years from age 63.

Taking the liabilities calculated on the above basis and the assets (of both Plan 35 and Plan 16) at market value gives an aggregate pension scheme deficit at 31 December 2008, over the funded pension scheme for the whole UK J&J Group, of £91,693,000.

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 deficits 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 participate in an approved life assurance plan. The premiums paid to these arrangements during 2008 were:

Johnson & Johnson UK Approved Life Assurance Plan	£63,000

Notes to the financial statements for the year ended 31 December 2008 (continued)

22 Contingent liabilities

The company has given unlimited guarantees in respect of certain fellow subsidiaries' liabilities to Royal Bank of Scotland plc. The company has given other bank guarantees arising in the ordinary course of business amounting to £3,000,000 (2007: £3,000,000).

The company hedges the value of future foreign currency commitments by taking out foreign currency forward contracts with a fellow group subsidiary. At 31 December 2008 the value of these contracts amounted to £86,754 (2007: £141,928).

23 Ultimate parent undertaking

The company's immediate holding company is Johnson & Johnson Medical 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 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.