Registered number: 03319712

# DePuy International Limited

## Annual report and financial statements

## For the year ended 3 January 2016

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## Contents

## Company Information

| | |
|---|---|
| **Directors** | BG Armstrong (resigned 6 November 2015)<br>SR Sinclair<br>P O'Sullivan (appointed 6 November 2015)<br>S Hunter (resigned 12 March 2015)<br>D Steane<br>AJ Scholes (appointed 6 June 2016)<br>MK Barker (appointed 21 March 2016) |
| **Company secretary** | D Rose |
| **Registered number** | 03319712 |
| **Registered office** | St Anthonys Road<br>Beeston<br>Leeds<br>West Yorkshire<br>LS11 8DT |
| **Independent Auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>Central Square<br>29 Wellington Street<br>Leeds<br>LS1 4DL |
| **Bankers** | The Royal Bank of Scotland<br>London Corporate Service Centre<br>PO Box 39952<br>2 1/2 Devonshire Square<br>London<br>EC2M 4XJ |
| **Solicitors** | DLA Piper UK LLP<br>Princes Exchange<br>Princes Square<br>Leeds<br>LS1 4BY |

## Strategic report
**For the year ended 3 January 2016**

The directors present their Strategic report on the company for the year ended 3 January 2016.

### Principal activities

DePuy International Limited manufactures and supplies orthopaedic products in the UK and performs R&D services on behalf of fellow group entities.

### Business review

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

The key financial and other performance measures during the year were as follows:

| | 3 January 2016 £000 | 28 December 2014 £000 | Change |
|---|---|---|---|
| Turnover | 23,664 | 27,266 | (13)% |
| Operating profit | 6,953 | 1,933 | 260 % |
| Total shareholders' funds | 76,320 | 171,340 | (55)% |
| Average number of employees | 446 | 402 | 11 % |

The results and dividend section on page 4 and the profit and loss account on page 9 show the full results for the financial year.

Turnover has decreased by 13% year on year due to the reduction in manufacturing activities during the period.

Operating profit has increased by 260% overall when compared with the prior year, largely due to the inclusion in the prior year's results of a £6.0m provision in respect of costs incurred in connection with the company's Greek subsidiary DePuy Hellas S.A.

The balance sheet on pages 11 - 12 of the financial statements shows the company's financial position at the end of the year.

The average number of employees has increased by 11% year on year due primarily to increased investment in research and development activities.

### *Future outlook*

The markets in which the company operates are expected to remain competitive in 2016 with forecast business perfomance expected to be consistent with this financial year. 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. The diirectors remain confident that the company will continue to perform well in the future.

## Strategic report (continued)
**For the year ended 3 January 2016**

### 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. The risks and uncertainties are managed at regular board meetings and where applicable actions are taken to mitigate the risks.

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

......................................................
P O'Sullivan
Director

Date: 16/9/2016

# Directors' report
**For the year ended 3 January 2016**

The directors present their annual report and the audited financial statements of the company for the year ended 3 January 2016.

## Results and dividends

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

The company's profit for the financial year is £5,839,000 (2014: £9,033,000). A final dividend of £2.143 (2014: £nil) per ordinary share amounting to £100,000,000 (2014: £nil) was paid. The aggregate dividends on the ordinary shares recognised during the year amounted to £100,000,000 (2014: £nil). There were no proposed dividends awaiting approval at the balance sheet date (2014: £nil).

## 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.

## 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 and interest rate cash flow 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.

*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.

## Future outlook

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

## Directors' report
**For the year ended 3 January 2016**

### Qualifying third party indemnity provisions

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

### 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 | (resigned 6 November 2015) |
| SR Sinclair | |
| P O'Sullivan | (appointed 6 November 2015) |
| S Hunter | (resigned 12 March 2015) |
| D Steane | |
| AJ Scholes | (appointed 6 June 2016) |
| MK Barker | (appointed 21 March 2016) |

### 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 in order to take on the views of the employees in decision-making. Team briefings, which complement other forms of management communication, ensure that all levels in the organisation are kept up-to-date on the performance of the company, thereby increasing employee engagement. In addition, surveys such as the annual Credo survey are conducted to provide opportunities for employees to feed back to senior management on the health of the business and general working environment.

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

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

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

### Disabled 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.

## Directors' report
**For the year ended 3 January 2016**

### Statement of directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

### Statement of disclosure of information to auditors

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

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

### Independent auditors

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

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

P O'Sullivan
Director

Date: 16/9/2016

# Independent auditors' report to the members of DePuy International Limited

## Report on the financial statements

### Our opinion

In our opinion DePuy International Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 3 January 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

DePuy International Limited's financial statements, comprise:

- the Balance sheet as at 3 January 2016;
- the Profit and loss account and Statement of Total Recognised Gains and Losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

## Opinions on matter prescribed by the Companies Act 2006

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

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

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

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

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

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

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

## Independent auditors' report to the members of DePuy International Limited

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

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

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

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

#### What an audit of financial statements involves

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

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

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

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

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

Gary Shaw (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

Date: 19 September 2016

## Profit and loss account
**For the year ended 3 January 2016**

| | Note | Year ended 3 January 2016 £000 | Year ended 28 December 2014 £000 |
|---|---|---|---|
| **Turnover** | 2 | **23,664** | 27,266 |
| Cost of sales | | **(21,653)** | (22,815) |
| **Gross profit** | | **2,011** | 4,451 |
| Administrative expenses | | **(30,980)** | (35,924) |
| Other operating income | 3 | **35,922** | 33,406 |
| **Operating profit** | 4 | **6,953** | 1,933 |
| Income from shares in group undertakings | | **48** | 8,883 |
| Interest receivable and similar income | 8 | **335** | 382 |
| Amounts written off investments | 13 | **(8)** | (8) |
| Other finance expense | 9 | **(6)** | (2) |
| **Profit on ordinary activities before taxation** | | **7,322** | 11,188 |
| Tax on profit on ordinary activities | 10 | **(1,483)** | (2,155) |
| **Profit for the financial year** | 22 | **5,839** | 9,033 |

All amounts relate to continuing operations.

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the financial year stated above and their historical cost equivalents.

The notes on pages 13 to 34 form part of these financial statements.

## Statement of total recognised gains and losses
### For the year ended 3 January 2016

| | Note | Year ended 3 January 2016 £000 | Year ended 28 December 2014 £000 |
|---|---|---|---|
| **Profit for the financial year** | | **5,839** | 9,033 |
| Actuarial loss related to pension scheme | 20 | **(20)** | (103) |
| Deferred tax attributable to actuarial loss | 16 | **4** | 21 |
| **Total recognised gains and losses relating to the year** | | **5,823** | 8,951 |

The notes on pages 13 to 34 form part of these financial statements.

# Balance sheet
**As at 3 January 2016**

| | Note | £000 | 3 January 2016 £000 | £000 | 28 December 2014 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 12 | | **32,988** | | 31,097 |
| Investments | 13 | | **1,653** | | 1,661 |
| | | | **34,641** | | 32,758 |
| **Current assets** | | | | | |
| Stocks | 14 | **4,115** | | 3,955 | |
| Debtors | 15 | **132,340** | | 248,006 | |
| Cash at bank and in hand | | **59** | | - | |
| | | **136,514** | | 251,961 | |
| **Creditors:** amounts falling due within one year | 17 | **(89,714)** | | (102,732) | |
| **Net current assets** | | | **46,800** | | 149,229 |
| **Total assets less current liabilities** | | | **81,441** | | 181,987 |
| **Creditors:** amounts falling due after more than one year | 18 | | **(4,249)** | | (4,103) |
| **Provisions for liabilities** | | | | | |
| Other provisions | 19 | | **(626)** | | (6,411) |
| **Net assets excluding pension scheme liabilities** | | | **76,566** | | 171,473 |
| Pension liability | 20 | | **(246)** | | (133) |
| **Net assets including pension scheme liabilities** | | | **76,320** | | 171,340 |
| **Capital and reserves** | | | | | |
| Called up share capital | 21 | | **46,654** | | 46,654 |
| Capital contribution | 22 | | **1** | | 1 |
| Profit and loss account | 22 | | **29,665** | | 124,685 |
| **Total shareholders' funds** | 23 | | **76,320** | | 171,340 |

## Balance sheet (continued)
**As at 3 January 2016**

The financial statements on pages 9 to 34 were approved and authorised for issue by the board and were signed on its behalf by:

..............................................
P O'Sullivan
Director

Date: 16/9/2016

The notes on pages 13 to 34 form part of these financial statements.

# Notes to the financial statements
**For the year ended 3 January 2016**

## 1. Principal accounting policies

### Accounting period

The accounting year ended 3 January 2016 consists of 53 weeks. For the purposes of these financial statements this year is referred to as 2015. The accounting year ended 28 December 2014 is referred to as 2014.

### Basis of preparation

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

### Consolidated financial statements

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

### 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 | 30 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.

## Notes to the financial statements
**For the year ended 3 January 2016**

### 1. Principal accounting policies (continued)

**Government grants**

Grants received and receivable on qualifying expenditure have been treated as deferred income and are credited to the profit and loss account over the expected useful lives of the assets concerned.

**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 are eligible to join the funded defined benefit scheme, and the defined contribution scheme is now closed to new entrants.

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

## 1. Principal accounting policies (continued)

**Share-based payments**

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

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

**Employer's National Insurance on share options**

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

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

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

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

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

## Notes to the financial statements
**For the year ended 3 January 2016**

### 1. Principal accounting policies (continued)

**Cash flow statement**

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

**Related party transactions**

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

### 2. Turnover

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 3 January 2016 £000** | Year ended 28 December 2014 £000 |
|---|---|---|
| Europe, Middle East & Africa | **23,664** | 27,266 |

### 3. Other operating income

| | **Year ended 3 January 2016 £000** | Year ended 28 December 2014 £000 |
|---|---|---|
| Other operating income | **35,922** | 33,406 |

Other operating income for the year represents income receivable from the recharge of operating expenses incurred on behalf of DePuy (Ireland) Limited.

## Notes to the financial statements
**For the year ended 3 January 2016**

### 4. Operating profit

The operating profit is stated after charging/(crediting):

| | **Year ended 3 January 2016 £000** | Year ended 28 December 2014 £000 |
|---|---|---|
| Amortisation - intangible fixed assets | **-** | 1,111 |
| Depreciation of tangible fixed assets: | | |
| - owned by the company | **3,188** | 3,493 |
| Operating lease rentals: | | |
| - Plant and machinery | **360** | 353 |
| - Land and buildings | **330** | 1,309 |
| Loss on foreign exchange | **1,461** | 244 |
| Research and development expenditure | **19,407** | 18,226 |
| Loss/(gain) on disposal of tangible fixed assets | **407** | (22) |
| Costs in connection with subsidiary, DePuy Hellas SA | **-** | 6,003 |

### 5. Auditors' remuneration

| | **Year ended 3 January 2016 £000** | Year ended 28 December 2014 £000 |
|---|---|---|
| Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the company | **52** | 51 |

## 6. Staff costs

Staff costs were as follows:

| | Year ended 3 January 2016 £000 | Year ended 28 December 2014 £000 |
|---|---|---|
| Wages and salaries | 16,071 | 16,942 |
| Social security costs | 1,672 | 1,831 |
| Other pension costs (note 20) | 5,455 | 4,785 |
| Share-based payments (note 24) | 957 | 1,014 |
| | 24,155 | 24,572 |

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

| | Year ended 3 January 2016 No. | Year ended 28 December 2014 No. |
|---|---|---|
| Management and administration | 274 | 212 |
| Production | 172 | 190 |
| | 446 | 402 |

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

## 7. Directors' emoluments

| | Year ended 3 January 2016 £000 | Year ended 28 December 2014 £000 |
|---|---|---|
| Aggregate emoluments | **567** | 817 |

Retirement benefits are accruing to three directors (2014: three directors) under the company's defined benefit pension scheme and to no directors (2014: none) under the money purchase scheme.

Two directors (2014: two directors) exercised share options in the ultimate parent company during the year.

| | Year ended 3 January 2016 £000 | Year ended 28 December 2014 £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) | **292** | 364 |
| Defined benefit scheme: | | |
| Accrued pension at year end | **19** | 44 |

The highest paid director exercised share options in the year (2014: no exercised options).

The emoluments of B Armstrong were paid by Johnson & Johnson Medical Limited and P O'Sullivan's emoluments were paid by DePuy (Ireland) Limited. Johnson & Johnson Medical Limited and DePuy (Ireland) Limited are fellow subsidiaries of the Johnson & Johnson group. The total emoluments of B Armstrong and P O'Sullivan are therefore included in the aggregate staff costs of Johnson & Johnson Medical Limited and DePuy (Ireland) Limited respectively.

## 8. Interest receivable and similar income

| | Year ended 3 January 2016 £000 | Year ended 28 December 2014 £000 |
|---|---|---|
| On UK group banking arrangements | **335** | 382 |

## 9. Other finance expense

| | Year ended 3 January 2016 £000 | Year ended 28 December 2014 £000 |
|---|---|---|
| Interest on pension scheme liabilities | **6** | 2 |

## 10. Tax on profit on ordinary activities

| | Year ended 3 January 2016 £000 | Year ended 28 December 2014 £000 |
|---|---|---|
| **Analysis of tax credit in the year** | | |
| **Current tax** (see note below) | | |
| UK corporation tax charge on profit for the year | **1,045** | 1,425 |
| Adjustments in respect of prior years | **72** | 380 |
| **Total current tax** | **1,117** | 1,805 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **366** | 341 |
| Adjustments in respect of previous years | **-** | 9 |
| **Total deferred tax** | **366** | 350 |
| **Tax on profit on ordinary activities** | **1,483** | 2,155 |

### Factors affecting tax charge for the year

The tax assessed for the year is lower than (2014: lower than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.50%). The differences are explained below:

| | Year ended 3 January 2016 £000 | Year ended 28 December 2014 £000 |
|---|---|---|
| Profit on ordinary activities before taxation | **7,322** | 11,188 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.50%) | **1,483** | 2,405 |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | **528** | 2,107 |
| Accelerated capital allowances and other timing differences | **(306)** | (292) |
| Adjustments in respect of prior years | **72** | 380 |
| Non-taxable income | **(33)** | (1,931) |
| Additional deduction for research and development | **(304)** | (430) |
| Deduction for stock option exercises | **(323)** | (434) |
| **Total current tax charge for the year** (see note above) | **1,117** | 1,805 |

## 10. 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 21% to 20% with effect from 1 April 2015. Accordingly, the company's profits for this accounting year are taxed at an effective rate of 20.25%.

On 26 October 2015 changes in the UK main Corporation Tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted. As a result the relevant deferred tax balances have been re-measured to 18%, reflective of the rate expected to be in force at the time the underlying timing differences reverse.

Further to these changes in rate it was announced by the Chancellor of the Exchequer that the main rate of Corporation Tax will be revised down further to 17% from 2020. Legislation will be introduced in the Finance bill 2016 to that effect.

## 11. Dividends

| | **Year ended 3 January 2016 £000** | Year ended 28 December 2014 £000 |
|---|---|---|
| Final paid: £2.143 (2014: £nil) per £1 ordinary share | **100,000** | - |

## 12. 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 29 December 2014 | 6,147 | 11,103 | 40,281 | 11,001 | 14,444 | 82,976 |
| Additions | - | - | - | - | 5,486 | 5,486 |
| Disposals | (186) | - | (2,822) | (3,351) | - | (6,359) |
| Transfer between classes | 8,857 | 733 | 1,403 | 982 | (11,975) | - |
| At 3 January 2016 | 14,818 | 11,836 | 38,862 | 8,632 | 7,955 | 82,103 |
| **Accumulated depreciation** | | | | | | |
| At 29 December 2014 | 1,009 | 8,823 | 34,280 | 7,767 | - | 51,879 |
| Charge for the year | 496 | 717 | 1,582 | 393 | - | 3,188 |
| On disposals | (76) | - | (2,560) | (3,316) | - | (5,952) |
| At 3 January 2016 | 1,429 | 9,540 | 33,302 | 4,844 | - | 49,115 |
| **Net book amount** | | | | | | |
| At 3 January 2016 | 13,389 | 2,296 | 5,560 | 3,788 | 7,955 | 32,988 |
| At 28 December 2014 | 5,138 | 2,280 | 6,001 | 3,234 | 14,444 | 31,097 |

## 13. Fixed asset investments

| | £000 |
|---|---|
| **Cost** | |
| At 29 December 2014 | 5,727 |
| Disposals | (8) |
| At 3 January 2016 | 5,719 |
| **Amounts written off** | |
| At 29 December 2014 | (4,066) |
| Impairment during the year | (8) |
| On disposals | 8 |
| At 3 January 2016 | (4,066) |
| **Net book amount** | |
| At 3 January 2016 | 1,653 |
| At 28 December 2014 | 1,661 |

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. The directors believe that the carrying value of the investments is supported by their underlying net assets.

| (1) Registered in England and Wales | Shares held 3 January 2016 |
|---|---|
| BCCO (1992) Limited (non-trading) £1 ordinary shares - in liquidation | 8,299 |
| DePuy Motech Limited (non-trading) £1 ordinary shares - in liquidation | 100 |

On 19 June 2014 the members of Tweedbank Surgical Engineering Limited, CMW Laboratories Limited, Orthogenesis Limited, Charles F Thackray (1991) Limited and Charnley Limited passed a special resolution and appointed liquidators to wind up the companies under a Members Voluntary Agreement. Subsequently on 22 April 2015 the companies were dissolved.

On 17 December 2014 the members of BCCO (1992) Limited and Depuy Motech Limited passed a special resolution and appointed liquidators to wind up the company under a Members Voluntary Agreement. Subsequently on 15 May 2016 the companies were dissolved.

| (2) Incorporated in Sweden | Shares held 3 January 2016 |
|---|---|
| Cemvac Systems AB (non-trading) ordinary 100 Swedish Krone shares | 5,000 |

| (3) Incorporated in Greece | Shares held 3 January 2016 |
|---|---|
| DePuy Hellas S.A. (non-trading) ordinary €2.93 shares | 60,000 |

## 14. Stocks

| | 3 January 2016 £000 | 28 December 2014 £000 |
|---|---|---|
| Raw materials and consumables | **1,686** | 1,991 |
| Work in progress | **1,714** | 1,148 |
| Finished goods and goods for resale | **715** | 816 |
| | **4,115** | 3,955 |

## 15. Debtors

| | 3 January 2016 £000 | 28 December 2014 £000 |
|---|---|---|
| **Amounts falling due after more than one year** | | |
| Deferred tax asset (note 16) | **834** | 1,217 |
| **Amounts falling due within one year** | | |
| Trade debtors | **211** | 211 |
| Amounts owed by group undertakings | **126,824** | 244,064 |
| Corporation tax repayable | **1,019** | 16 |
| Prepayments and accrued income | **3,452** | 2,498 |
| | **132,340** | 248,006 |

Amounts owed by group undertakings includes an amount of £56,607,804 (2014: £163,788,336) invested with the In-House Treasury Cash Pool. This amount is unsecured and interest bearing.

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

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

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

## 16. Deferred tax asset

The deferred tax asset recognised in the financial statements is as follows:

| | Asset recognised / (amount provided) | |
|---|---|---|
| | **3 January 2016 £000** | 28 December 2014 £000 |
| Accelerated capital allowances | **305** | 660 |
| Short term timing differences | **529** | 557 |
| Deferred tax excluding that relating to the pension liability | **834** | 1,217 |
| Deferred tax asset on pension liability | **54** | 33 |
| **Total deferred tax asset** | **888** | 1,250 |
| At start of year | **1,250** | 1,579 |
| Deferred tax movement in profit and loss account | **(366)** | (350) |
| Deferred tax movement in STRGL | **4** | 21 |
| **At end of year** | **888** | 1,250 |

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. Creditors: Amounts falling due within one year

| | **3 January 2016 £000** | 28 December 2014 £000 |
|---|---|---|
| Bank loans and overdrafts | **-** | 1,063 |
| Trade creditors | **1,281** | 1,242 |
| Amounts owed to group undertakings | **79,063** | 89,291 |
| Other taxation and social security | **14** | 31 |
| Accruals and deferred income | **9,356** | 11,105 |
| | **89,714** | 102,732 |

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

## Notes to the financial statements
**For the year ended 3 January 2016**

### 18. Creditors: Amounts falling due after more than one year

| | 3 January 2016 £000 | 28 December 2014 £000 |
|---|---|---|
| Government grants received in advance | **4,249** | 4,103 |

### 19. Provisions for liabilities

| | NI on share options £000 | DePuy Hellas S.A. £000 | Total £000 |
|---|---|---|---|
| At 29 December 2014 | **665** | **5,746** | **6,411** |
| Charged to profit and loss account | **175** | **-** | **175** |
| Utilised during the year | **(214)** | **(5,746)** | **(5,960)** |
| At 3 January 2016 | **626** | **-** | **626** |

**NI on share options**

The provision represents Employer's National Insurance on unexercised share options (see note 24). This is expected to be utilised within the next 10 years.

**DePuy Hellas S.A.**

The provision of £5.7m of costs to be incurred on behalf of the company's subsidiary DePuy Hellas S.A in connection with the final settlement of a Greek tax audit was fully utilised during the year.

## Notes to the financial statements
**For the year ended 3 January 2016**

### 20. Pension commitments

DePuy International Limited participates in three pension arrangements in conjunction with other companies in the Johnson & Johnson Group. These are:

- A funded, defined benefit plan called the "Johnson & Johnson UK Group Retirement Plan";
- A defined contribution plan with some underlying guarantees for employees called the "Johnson & Johnson UK Group Retirement Plan 16"; and
- An unfunded, unapproved defined benefit arrangement.

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

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

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

Contributions paid to the Johnson & Johnson UK Group Retirement Plan by the company in the year 29 December 2014 to 3 January 2016 amounted to £5,218,000.

Contributions paid by the company to Plan 16 in the year 29 December 2014 to 3 January 2016 amounted to £129,000.

At the end of 2015, no contributions were outstanding.

For comparison, during 2014 the company paid contributions of £4,640,000 into the Johnson & Johnson Group Retirement Plan and £125,000 into Plan 16.

The best estimate of the company contributions expected in the year 4 January 2016 to 1 January 2017 to be paid to Johnson & Johnson UK Group Retirement Plan is £5,554,000.

The best estimate of the company contributions expected in the year 4 January 2016 to 1 January 2017 to be paid to Johnson & Johnson UK Group Retirement Plan 16 is £129,000.

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

**Composition of the UK Group Retirement Plan**

The statutory actuarial funding valuations of the Plan and Plan 16 as at 31 March 2014 have been completed. The valuation results at these dates have been updated to 3 January 2016 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Rate of increases in salaries | **4.00%** | 4.00% | 4.30% | 4.25% | 4.25% |
| Rate of increase in pensions in payment (where 5% LPI applies) | **2.95%** | 2.90% | 3.20% | 3.00% | 3.00% |
| Discount rate | **3.90%** | 3.75% | 4.60% | 4.60% | 5.00% |
| Inflation assumption (RPI) | **3.00%** | 3.00% | 3.30% | 3.25% | 3.25% |

## 20. Pension commitments (continued)

In addition to the major financial assumptions above, it is assumed that male members currently aged 45 will live for 24.5 years from age 65 and those currently aged 65 will live for a further 22.8 years. It is also assumed that all members commute 80% of the maximum permissible amount of their pension for cash in line with current commutation terms.

Taking the liabilities calculated on the above basis and the assets of the Plan and Plan 16 at market value gives an aggregate pension scheme surplus at 3 January 2016, for the whole UK Johnson & Johnson Group, of £55,212,000 (2014: £1,260,000).

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

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

### Unfunded, unapproved defined benefit arrangement

As mentioned above, there is a small unfunded unapproved pension arrangement for employees following the benefit changes that were implemented with effect from 1 April 2012. To mitigate the impact of the reduced Annual Allowance (and the associated tax charges) on Plan members, some employees accrue part of their benefits outside of the registered pension arrangement.

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

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

| Net pension liability | **2015 £000** | 2014 £000 | 2013 £000 | 2012 £000 | 2011 £000 |
|---|---|---|---|---|---|
| Deficit in scheme | **(300)** | (166) | (41) | (58) | - |
| Related deferred tax asset | **54** | 33 | 8 | 13 | - |
| Net pension liability | **(246)** | (133) | (33) | (45) | - |

| Movement in liability during the year | **2015 £000** | 2014 £000 | 2013 £000 | 2012 £000 | 2011 £000 |
|---|---|---|---|---|---|
| Liability in scheme at beginning of the year | **(166)** | (41) | (58) | - | - |
| Movement in year: | | | | | |
| Current service costs | **(108)** | (20) | (19) | (57) | - |
| Other finance expense | **(6)** | (2) | (3) | - | - |
| Assumptions gain/(loss) | **11** | (30) | 2 | (1) | - |
| Experience (loss)/gain | **(31)** | (73) | 37 | - | - |
| **Liability in scheme at end of year** | **(300)** | **(166)** | **(41)** | **(58)** | - |

## Notes to the financial statements
**For the year ended 3 January 2016**

### 20. Pension commitments (continued)

| **Analysis of the amount charged to profit or loss** | **2015 £000** | 2014 £000 | 2013 £000 | 2012 £000 | 2011 £000 |
|---|---|---|---|---|---|
| Current service costs | **(108)** | (20) | (19) | (57) | - |
| Interest on pension scheme liabilities | **(6)** | (2) | (3) | - | - |
| *Total expense recognised in profit and* loss account | **(114)** | (22) | (22) | (57) | - |

| **Analysis of amount recognised in STRGL** | **2015 £000** | 2014 £000 | 2013 £000 | 2012 £000 | 2011 £000 |
|---|---|---|---|---|---|
| Experience gain/(loss) on scheme liabilities | **(31)** | (73) | 37 | - | - |
| Changes in assumptions underlying the present value of the scheme liabilities | **11** | (30) | 2 | (1) | - |
| Actuarial gain/(loss) recognised in STRGL | **(20)** | (103) | 39 | (1) | - |

**History of experience gains and losses**

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Experience (gains)/losses of scheme liabilities:** | | | | | |
| Amount (£000) | **(31)** | (73) | 37 | - | - |
| % of the present value of the scheme liabilities | **10.3%** | 44.0% | (90.2)% | - % | - % |

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £85,000 (2014: £65,000).

Estimated benefits to be paid directly by DePuy International Limited during the next accounting year are £nil.

**Life Assurance**

DePuy International Limited participates in an approved life assurance plan. The premiums paid to these arrangements during 2015 were:

| | **£000** |
|---|---|
| Johnson & Johnson UK Approved Life Assurance Plan | **49** |

## 21. Called up share capital

| | 3 January 2016 £000 | 28 December 2014 £000 |
|---|---|---|
| **Allotted and fully paid** | | |
| 46,653,706 (2014: 46,653,706) ordinary shares of £1 each | **46,654** | 46,654 |

## 22. Reserves

| | Capital contribution £000 | Profit and loss account £000 |
|---|---|---|
| At 29 December 2014 | 1 | 124,685 |
| Profit for the financial year | - | 5,839 |
| Dividends (note11) | - | (100,000) |
| Actuarial loss on pension scheme net of deferred tax | - | (16) |
| Share based payment: services provided | - | 957 |
| Share based payment: recharge from ultimate parent | - | (1,800) |
| At 3 January 2016 | 1 | 29,665 |

## 23. Reconciliation of movements in shareholders' funds

| | 3 January 2016 £000 | 28 December 2014 £000 |
|---|---|---|
| Opening shareholders' funds | **171,340** | 163,574 |
| Profit for the financial year | **5,839** | 9,033 |
| Dividends (note 11) | **(100,000)** | - |
| Actuarial loss on pension scheme net of deferred tax | **(16)** | (82) |
| Share based payments | **(843)** | (1,185) |
| Closing shareholders' funds | **76,320** | 171,340 |

## 24. Share based payments

### Share options

At 3 January 2016 the company's employees were members of 5 stock-based compensation plans operated by the ultimate parent company. The shares outstanding are for contracts under Johnson & Johnson's 2005 and 2012 UK Approved Stock Option Plans, the 2005 and 2012 UK Unapproved Stock Option Plans and the 2012 Non-Qualifying Option Plan. All of these arrangements are settled in equity, have a three year vesting period and any unexercised options lapse 10 years from the grant date.

A reconciliation of option movements over the year to 3 January 2016 is shown below:

| | **3 January 2016** | | 28 December 2014 | |
|---|---|---|---|---|
| | **Number ('000)** | **Weighted average exercise price** | Number ('000) | Weighted average exercise price |
| Outstanding at start of year | **156** | **$73.19** | 176 | $65.43 |
| Granted | **34** | **$100.06** | 42 | $90.44 |
| Forfeited/Cancelled | **(22)** | **$80.67** | - | - |
| Exercised | **(17)** | **$62.61** | (44) | $63.24 |
| Transferred | **1** | **-** | (18) | - |
| Outstanding at end of year | **152** | **$79.39** | 156 | $73.19 |
| Exercisable at end of year | **45** | | 56 | |

The weighted average fair value of options granted in the year was $358,212 (2014: $355,088). The weighted average share price at the date of exercise for options exercised in the year was $100.88 (2014: $101.33).

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

| **3 January 2016** | | | | 28 December 2014 | | | |
|---|---|---|---|---|---|---|---|
| **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 |
| **$66.18** | **0** | **0 yrs** | **0 yrs** | $66.18 | 2 | 0.1 yrs | 0.1 yrs |
| **$58.34** | **0** | **0.1 yrs** | **0.1 yrs** | $58.34 | 7 | 1.1 yrs | 1.1 yrs |
| **$65.62** | **5** | **1.1 yrs** | **1.1 yrs** | $65.62 | 11 | 2.1 yrs | 2.1 yrs |
| **$61.75** | **8** | **2.1 yrs** | **2.1 yrs** | $61.75 | 8 | 3.1 yrs | 3.1 yrs |
| **$58.33** | **10** | **3.1 yrs** | **3.1 yrs** | $58.33 | 10 | 4.1 yrs | 4.1 yrs |
| **$62.62** | **10** | **4.1 yrs** | **4.1 yrs** | $62.62 | 10 | 5.1 yrs | 5.1 yrs |
| **$62.20** | **9** | **5.1 yrs** | **5.1 yrs** | $62.20 | 8 | 6.1 yrs | 6.1 yrs |
| **$65.37** | **2** | **6.1 yrs** | **6.1 yrs** | $65.37 | 6 | 7.1 yrs | 7.1 yrs |
| **$72.54** | **40** | **7.1 yrs** | **7.1 yrs** | $72.54 | 52 | 8.1 yrs | 8.1 yrs |
| **$90.44** | **34** | **8.1 yrs** | **8.1 yrs** | $90.44 | 42 | 9.1 yrs | 9.1 yrs |
| **$100.06** | **34** | **9.1 yrs** | **9.1 yrs** | | | | |

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

## 24. Share based payments (continued)

The total charge (2014: charge) for the year relating to employee share based payment plans was £135,260 (2014: £133,295), all of which related to equity-settled share based payment transactions. After deferred tax at 18% (2014: 20%), the total charge (2014: charge) was £110,913 (2014: £106,636).

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:

| | 3 January 2016 | 28 December 2014 |
|---|---|---|
| Share price at grant date and exercise price | **$100.06** | $90.44 |
| Number of employees | **21** | 18 |
| Shares granted in year | **33,531** | 42,182 |
| Vesting period (years) | **3 years** | 3 years |
| Expected volatility | **15.48%** | 14.60% |
| Option life (years) | **10 years** | 10 years |
| Expected life (years) | **7 years** | 6 years |
| Risk free rate | **1.77%** | 1.87% |
| Expected dividend yield | **2.90%** | 3.10% |
| Fair value per option | **$10.683** | $8.418 |

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

### Restricted Stock Units and Performance Stock Units

The company also grants Restricted Stock Units (RSU's) and Performance Stock Units (PSU's). The RSU's were first granted in 2006 and have a vesting period of 3 years. The PSU's were first granted in 2013 and also have a vesting period of 3 years. The average fair value of the RSU's and PSU's granted during the year was $91.72, 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.

| | 3 January 2016 | 28 December 2014 |
|---|---|---|
| | **Number of shares ('000)** | Number of shares ('000) |
| Shares at start of year | **61** | 63 |
| Stock granted | **18** | 23 |
| Stock forfeited | **(5)** | - |
| Stock issued | **(17)** | (17) |
| Stock transferred | **-** | (8) |
| Shares at end of year | **57** | 61 |

The total charge for the year relating to employee RSU's was £807,671 (2014: £808,467). After deferred tax at 18% (2014: 20%), the total charge was £662,290 (2014: £646,774).

The total charge for the year relating to employee PSU's was £14,497 (2014: £71,945). After deferred tax at 18% (2014: 20%), the total charge was £11,888 (2014: £57,556).

## 24. Share based payments (continued)

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

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

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

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

**National Insurance**

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

An accrual of £271,305 (2014: £307,455) for employers' national insurance has been made at the balance sheet date based on the year-end share price of $102.72 (2014: $104.57). It has been assumed that 100% of shares held by employees at the balance sheet date will be exercised.

An accrual of £332,751 (2014: £337,561) has been made for the employers' national insurance on restricted stock units.

An accrual of £22,593 (2014: £20,809) has been made for the employers' national insurance on performance stock units.

## 25. Commitments and contingencies

**Capital expenditure commitments**

| | 3 January 2016 £000 | 28 December 2014 £000 |
|---|---|---|
| Future capital expenditure contracted but not provided for | **1,872** | 1,917 |

**Annual commitments under non-cancellable operating leases**

At 3 January 2016 the company had annual commitments under non-cancellable operating leases expiring as follows:

| | 3 January 2016 | | 28 December 2014 | |
|---|---|---|---|---|
| | **Land & buildings £000** | **Other £000** | Land & buildings £000 | Other £000 |
| Within one year | **-** | **68** | - | 79 |
| Within two to five years | **330** | **179** | 346 | 247 |
| After five years | **-** | **-** | - | - |
| | **330** | **247** | 346 | 326 |

| **Contingent Liabilities** | 3 January 2016 £000 | 28 December 2014 £000 |
|---|---|---|
| Bank guarantees | **200** | 200 |
| Hedged currency contract commitments | **256** | (78) |
| | **456** | 122 |

The company enters into forward foreign currency contracts to eliminate currency exposures arising on sales and purchases made in foreign currencies. The company does not hold derivative financial instruments for speculative purposes. As at 3 January 2016 the fair value of forward foreign currency contracts held was a loss of £7,689.

## 26. Ultimate and immediate parent undertaking and controlling party

The immediate parent 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 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.