Registered Number: 740767

Zimmer Limited
Annual report
for the year ended 31 December 2005

Zimmer Limited

Annual report
for the year ended 31 December 2005

Directors' report for the year ended 31 December 2005

The directors present their report and the audited financial statements of the company for the year ended 31 December 2005.

Principal activities

The principal activity of the company is the sales and marketing of medical devices and other orthopaedic equipment.

Review of the business and future developments

In 2005 the company continued to trade through branches and commission agents in Belgium, France, Germany, Holland, Spain and other European countries as well as within the UK..

The directors expect continuing growth in the retained UK business in future years. The group has announced plans to trade through certain European countries directly from Switzerland. This trade which was being undertaken by the company in 2004 has therefore been transferred during the course of 2005. The trade that has been transferred has been presented as discontinued operations in the financial statements.

In July 2004, as a result of a wider group reorganisation, the company became an effective Limited Risk Distributor responsible for the sale of orthopaedic products acquired from a group undertaking.

The reorganisation was implemented as part of the post merger integration following the acquisition of Centerpulse AG by Zimmer Inc. The company has entered into an Advanced Pricing Agreement with HM Revenue and Customs to obtain a great level of assurance over the newly adopted transfer pricing model.

During the year the group has undertaken a reorganisation of European operations.

As a result on 23 September 2005 the company was acquired by Zimmer U.K. Limited, from Zimmer Investment Luxembourg S.C.A. Furthermore, on 23 September 2005 the company increased its authorised share capital by 18,800,000 shares to 126,513,000 shares. On 24 September 2005 the company issued 18,800,000 shares to Zimmer U.K. Limited in consideration for the entire issued share capital and business of Centerpulse (UK) Limited increasing its share capital to £31,628,250 (see note 18).

Results and dividends

The results for the year are shown in the profit and loss account on page 6.

No interim dividend was paid during the year (2004: 6.5p per ordinary share amounting to £7,000,000). *The directors do not recommend the payment of a final dividend* (2004: £nil).

Research and development

Expenditure on research and development during the year was £1,488,439 (2004: £1,580,214).

Directors' report for the year ended 31 December 2005 (continued)

Directors and their interests

The directors who held office during the year are given below:

M Humphris
B Melzi
C V Ridgwell
J Evensen - resigned 8 April 2005
P Simonetto - appointed 24 June 2005
C Jefferis - appointed 23 September 2005

Subsequent to the year end J C Brown and A Massarella were appointed as directors on 30 March 2006.

None of the directors have any interest in the shares of the company at any time during the year.

Under statutory instrument 802/1985, the interests of the directors in the share capital of the ultimate holding company or any of its subsidiaries incorporated overseas are not required to be disclosed.

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in foreign exchange risk, interest risk, credit risk and liquidity risk.

Foreign exchange risk
The company is exposed to movements in foreign exchange rates as a result of transactions with a number of foreign suppliers and customers. The company's ultimate parent undertaking, Zimmer Inc, manages the foreign exchange rate risk associated with the whole group, as disclosed in the financial statements of that company, which are available as disclosed in note 23.

Credit risk
The company has no significant concentrations of exposure to credit risk. The company has implemented policies that require appropriate credit checks on potential new customers before *sales commence and the amount of any individual counterparty is subject to a limit which is* reassessed regularly by the company's management.

Liquidity risk
The company manages a liquidity position with the objective of maintaining the ability to fund commitments and repay liabilities in accordance with their required terms. The financing of operations is primarily achieved through retained earnings and cash balances. An additional overdraft facility exists with the company's bank up to a value of £10 million.

Interest rate risk
The company pays and receives interest on intercompany borrowings and lending respectively at a rate of interest determined by the group (one loan being at fixed rate) and its bank deposits and overdraft facilities are at variable rates. No financial instruments were used by the company during the year to manage interest rate costs, and therefore no hedge accounting has been applied.

Directors' report for the year ended 31 December 2005 (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently, with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 9 under note 1 'Accounting Policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

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.

Creditor payment policy

The company's current policy concerning payments to suppliers of goods and services is to pay in accordance with agreed or customary terms and its practice is to adhere to these terms. The company's average creditor payment period at 31 December 2005 was 28 days (2004: 42 days).

Charitable donations

The company has made charitable donations during the year of £9,003 (2004: £4,203).

Auditors

The auditors, PricewaterhouseCoopersLLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

A Massarella
Director

Independent auditors' report to the members of Zimmer Limited

We have audited the financial statements of Zimmer Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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.

Independent auditors' report to the members of Zimmer Limited (continued)

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 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

31 October 2006

Profit and loss account for the year ended 31 December 2005

	Note	2005 £'000	As restated 2004 £'000
Turnover	4	**75,384**	123,665
Cost of sales		**(53,831)**	(62,033)
Gross profit		**21,553**	61,632
Distribution costs		**(17,079)**	(39,838)
Administrative expenses		**(732)**	(4,733)
Other income		**2,400**	-
Operating profit	5	**6,142**	17,061
Interest receivable and similar income		**1,294**	352
Interest payable and similar charges	8	**(558)**	(442)
Profit on ordinary activities before taxation		**6,878**	16,971
Tax on profit on ordinary activities	9	**(2,249)**	(5,849)
Profit on ordinary activities after taxation		**4,629**	11,122
Dividends	10	**-**	(7,000)
Retained profit for the financial year	19	**4,629**	4,122

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

Statement of total recognised gains and losses for the year ended 31 December 2005

	Note	2005 £'000	Restated 2004 £'000
Profit for the financial year		**4,629**	4,122
Actuarial loss on pension scheme	21	**(1,659)**	(423)
Movement on deferred tax relating to pension scheme	21	**498**	127
Total recognised gains and losses relating to the year		**3,468**	3,826
Prior year adjustment – FRS17		**(1,271)**	
Total gains and losses recognised since last annual report		**2,197**	

Balance sheet as at 31 December 2005

	Note	2005 £'000	As restated 2004 £'000
Fixed assets			
Tangible assets	11	**8,713**	16,389
Investments	12	**4,347**	-
		13,060	16,389
Current assets			
Stocks	13	**14,576**	31,582
Debtors	14	**61,639**	59,641
Cash at bank and in hand		**22,345**	4,653
		98,560	95,876
Creditors – amounts falling due within one year	15	**(41,789)**	(49,406)
Net current assets		**56,771**	46,470
Total assets less current liabilities		**69,831**	62,859
Provision for liabilities and charges	16	**(3,107)**	(5,157)
Net assets excluding pension liability		**66,724**	57,702
Pension liability	21	**(2,346)**	(1,465)
Net assets		**64,378**	56,237
Capital and reserves			
Called up share capital	18	**31,628**	26,928
Share premium account	19	**89**	89
Profit and loss account	19	**32,661**	29,193
Equity shareholders' funds	20	**64,378**	56,237

The financial statements on pages 6 to 24 were approved by the board of directors on and were signed on its behalf by:

31/10/06

A Massarella
Director

Notes to the financial statements for the year ended 31 December 2005

1 Accounting policies

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. The principal accounting policies are set out below.

Changes in accounting policy

The company has adopted FRS17 "Retirement benefits". This represents a change in accounting policy and the comparative figures have been restated accordingly.

The effect of the restatement on prior year figures was to decrease administration expenses by £53,000, increase other finance expense by £67,000, decrease profit after tax for the year by £11,000 and to decrease total recognised gains by £296,000. It has not been practiable to determine the impact of the adoption on the current year results.

The company has adopted FRS21 "Events after the balance sheet". The effect of the change in accounting policy to adopt FRS21 was £nil as all of the dividends were proposed and paid by the balance sheet date, in the relevant period.

Consolidation

The financial statements contain information about the company as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under s.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 Zimmer U.K Limited, a company registered in England and Wales, drawn up to 31 December 2005. Zimmer U.K. Limited is the parent undertaking of the smallest group of undertakings to consolidate these financial statements at 31 December 2005.

Copies of the consolidated financial statements of Zimmer U.K. Limited can be obtained from:

The Company Secretary
The Courtyard
Lancaster Place
South Marston Park
Swindon
SN3 4NQ

1 Accounting policies (continued)

Turnover

Turnover represents the value of goods and services provided to customers exclusive of value added tax.

The company sells product through two principal channels, direct to health care institutions and through stocking distributors and healthcare dealers.

Through the direct channel, inventory is generally consigned to sales agents or customers so that products are available when needed for surgical procedures. No revenue is recognized upon the placement of inventory into consignment as the company retains title and maintains the inventory on the company's balance sheet. Upon use, the company issues an invoice and revenue is recognized.

Pricing for products is generally predetermined by contracts with customers, agents acting on behalf of customer groups or by government regulatory bodies, depending on the market. Price discounts under group purchasing contracts are generally linked to volume of implant purchases by customer health care institutions within a specified group. At negotiated thresholds within a contract buying period, price discounts increase. The company tracks sales volumes by contract and as contractual volume thresholds are achieved, the higher discounts are applied at an item level on customer invoices. As such, discounts are reflected in revenue as earned. The company also accrues for anticipated price adjustments, which can occur subsequent to invoicing, based on reasonable estimates derived from past experience.

Revenue is recognized on sales to stocking distributors and healthcare dealers when title to product passes to the distributor or healthcare dealer, generally upon shipment. Product is generally sold to distributors on secured credit terms at fixed prices for specified periods. A distributor may return product in the event that the company terminates the relationship. Under those circumstances, the company records an estimated sales return in the period in which notice of termination is given to a distributor.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental cost of acquisition.

Depreciation is provided to spread the cost, less their estimated residual values, on a straight line basis over their estimated useful economic lives. The principal annual rates used for this purpose are:

Short term leasehold improvements	10%
Motor vehicles, fixtures and fittings	10-33%
Instruments	20%

Stock - finished goods

Finished goods have been valued at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. 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. Provision is made where necessary for obsolete, slow moving and defective stocks.

1 Accounting policies (continued)

Stock – undeployed instruments

Undeployed instruments represent instrument stocks. These stocks are stated at the lower of cost and net realisable value. These items are capitalised to instruments as and when they are included in an instrument kit and amortised over a five year period.

Operating leases

Operating lease rentals are charged to the profit and loss account, on a straight line basis over the lease term.

Foreign currency

Transactions denominated in foreign currencies are translated at the rate of exchange prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling on the balance sheet date. Exchange differences are included in the profit and loss account in the period in which they arise.

Deferred taxation

Deferred taxation is provided on a full provision basis on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that the tax will arise. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

Retirement benefits

The company operates both a defined benefit and defined contribution scheme on behalf of the company's employees. Details of the pension schemes for the company are set out in note 21 to the financial statements.

Onerous lease provision

When leasehold properties become redundant or excess space arises in those properties, the company provides for all costs to the end of the lease or the anticipated date of surrender of the lease, net of anticipated income. Such provisions are then discounted using the risk-free interest rate appropriate to the remaining term of the lease.

Dilapidation provision

Where the terms of a property lease require that at the end of the lease the building shall be returned to its original condition, a provision is made over the life of the lease for the estimated dilapidations expenditure.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Investments

Investments in subsidiaries are stated in the balance sheet of the company at cost, less amounts written off where there has been a permanent impairment in value.

1 Accounting policies (continued)

Share option scheme

Zimmer Holdings Inc. has established a stock option plan which permits employees of Zimmer Limited to acquire shares in Zimmer Holdings Inc. Zimmer Limited bears the cost of the difference between the fair value of the stock on the date of exercise and the option price paid by the participants when they exercise options to acquire stock.

2 Cash flow statement and related party disclosure

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

3 Continuing and discontinued operations

Turnover from continuing activities for the year was £47,798,000 (2004: £40,696,000) and from discontinued activities £26,586,000 (2004: £82,969,000). It has not been possible for management to allocate the costs of sales, distribution costs, administrative expenses and other income between continuing and discontinuing activities and as such no analysis has been provided.

4 Turnover

The geographical analysis of turnover by destination is as follows:

	2005	2004
	£'000	£'000
United Kingdom	**48,798**	40,696
Rest of Europe	**25,113**	76,815
Rest of World	**1,473**	6,154
	75,384	123,665

In the opinion of the directors there is only one class of business.

5 Operating profit

	2005	As restated 2004
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Wages and salaries	**5,031**	5,063
Social security costs	**509**	678
Pension costs (note 21)	**443**	509
Staff costs	**5,983**	6,250
Other income	**(2,400)**	-
Impairment investment in group undertakings (note 12)	**353**	-
Depreciation of owned tangible fixed assets	**3,216**	4,978
Auditors' remuneration		
Audit services	**103**	75
Non-audit services	**46**	75
Operating lease charges		
- other	**710**	334
Research and development expenditure	**1,488**	1,580
Gain on foreign currency movements	**(24)**	(152)

Included in social security costs is a credit of £45,000 (2004: charge of £108,000) in relation to the movement on the provision for national insurance payable on share options. See note 16 for further details.

Other income of £2,400,000 represents the amount agreed by Zimmer UK group and HMRC to be the arm's length incentive sum to which Zimmer UK Group is entitled in order to assist in the transition to its new role as a Local Country Distributor.

6 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2005	2004
By activity	**Number**	Number
Production and Research and Development	**10**	12
Selling and marketing	**71**	60
Administration	**44**	44
	125	116

7 Directors' emoluments

	2005	2004
	£'000	£'000
Aggregate emoluments	**244**	297
Compensation for loss of office	**82**	-

In addition to the above amounts one (2004: one) director is employed by an Italian subsidiary of Zimmer Inc. This director was remunerated by the Italian company for his services to the Zimmer Inc worldwide group, which included certain responsibilities relating to Zimmer Limited. However, the exact value of these services cannot be determined.

Five directors (2004: Three) exercised options over the shares in the parent company Zimmer Holdings Inc., during the year.

Retirement benefits are accruing to three (2004: three) directors under a defined benefit scheme and no (2004: none) directors under a money purchase scheme.

The emoluments of the highest paid director were as follows:

	2005	2004
	£'000	£'000
Aggregate emoluments	**127**	115
Defined benefit pension scheme:		
Accrued pension at end of year	**23**	17

The highest paid director exercised options over the shares in the parent company Zimmer Holdings Inc., during the year.

8 Interest payable and similar charges

		As restated
	2005	2004
	£'000	£'000
Interest payable on loans from group undertakings	**477**	375
Pension interest expense (note 21)	**81**	67
	558	442

9 Tax on the profit on ordinary activities

	2005 £'000	As restated 2004 £'000
Current tax		
UK corporation tax on profits for the year	**2,321**	5,570
Adjustment in respect of previous periods	**(238)**	(1)
Foreign tax		
Adjustment in respect of previous periods	-	506
Total current tax	**2,083**	6,075
Deferred tax		
Origination and reversal of timing differences	**166**	(226)
Total deferred tax	**166**	(226)
Tax on profit on ordinary activities	**2,249**	5,849

The tax assessed for the year is higher (2004: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £'000	As restated 2004 £'000
Profit on ordinary activities before tax	**6,879**	16,971
Profit on ordinary activities multiplied by standard rate in the UK 30% (2004: 30%)	**2,063**	5,091
Effects of:		
Expenses not deductible for tax purposes	**425**	215
Other timing differences	**(240)**	421
Capital allowances in excess of depreciation	**73**	(157)
Adjustments to tax charge in respect of previous periods	**(238)**	505
Current tax charge for the year:	**2,083**	6,075

10 Dividends

	2005 £'000	2004 £'000
Equity – Ordinary		
Interim paid: £nil (2004: £0.65) per £0.25 share	-	7,000

11 Tangible assets

	Short term leasehold improvements	Motor vehicles, fixtures and fittings	Instruments	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2005	675	619	32,288	33,582
Additions	6	56	3,481	3,543
Transfers from subsidiary undertakings	-	-	2,611	2,611
Disposals	-	(53)	(22,706)	(22,759)
At 31 December 2005	**681**	**622**	**15,674**	**16,977**
Accumulated depreciation				
At 1 January 2005	325	350	16,518	17,193
Charge for the year	67	62	3,087	3,216
Disposals	-	(53)	(12,092)	(12,145)
At 31 December 2005	**392**	**359**	**7,513**	**8,264**
Net book amount				
At 31 December 2005	**289**	**263**	**8,161**	**8,713**
At 31 December 2004	350	269	15,770	16,389

12 Investments

The capital and reserves of Zimmer Trustees Limited at 31 December 2005 was £nil (2004: £nil). Zimmer Trustees Limited was dormant throughout the whole year.

Shares in group undertakings	**2005**	2004
	£'000	£'000
At 1 January	-	-
Additions	**4,700**	-
Impairment in investments in group undertakings	**(353)**	-
At 31 December	**4,347**	-

At 31 December 2005 the company had the following subsidiary undertakings.

Subsidiary undertaking	Country of incorporation	Principal activity	Class and % of nominal value of that class held
Centerpulse (UK) Limited	England	Dormant	Ordinary shares 100%
Zimmer trustees Limited	England	Dormant	Ordinary shares 100%

On 24 September 2005 the company purchased 1,050,000 £1 ordinary shares, being 100% of the ordinary share capital, of Centerpulse (UK) Limited. In consideration for this purchase the company issued 18,800,000 shares of £0.25 each, see note 18.

12 Investments (continued)

The company has performed an impairment review of this investment which no longer traded at the year end and wrote it down to net asset value.

13 Stocks

	2005	2004
	£'000	£'000
Finished goods and goods for resale	**13,782**	26,756
Undeployed instruments	**794**	4,826
	14,576	31,582

14 Debtors

		As restated
	2005	2004
	£'000	£'000
Trade debtors	**8,911**	27,531
Amounts owed by group undertakings	**49,974**	29,500
Other debtors	**1,605**	1,518
Deferred tax (note 17)	**539**	587
Prepayments and accrued income	**610**	505
	61,639	59,641

Included in amounts owed by group undertakings is an amount of £13,216,202 (2004: £24,018,270) owed by Zimmer Inc. This is a revolving loan agreement.

The initial terms of this agreement were that it may be taken up in part or up to a total of EUR 5m from 19/9/02 until 19/9/07 but may be terminated by either party following 30 days notice. Interest is calculated on a daily basis on the net daily balance. Interest rate initially applied is determined on the date of the first draw down and thereafter on the first business day of each subsequent calendar year at a rate equivalent to 12 month Euro Dollar LIBOR plus 25 basis points. Interest accruing is payable by 2 instalments due in January and July.

This agreement was replaced on 1 March 2004. The terms of this agreement were that it may be taken up in part or up to a total of EUR 35m from 1/3/2004 until 1/3/2009 but may be terminated by either party following 30 days notice. Interest is calculated on a daily basis on the net daily balance. Interest rate initially applied is determined on the date of the first draw down and thereafter on the first business day of each subsequent calendar year at a rate equivalent to 12 month Euro Dollar LIBOR plus 25 basis points.

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

An amount of £1,518,000 (2004: £1,518.000) is included within other debtors which relates to the recoverability of the payment made in relation to the provision for legal dispute and related professional fees (see note 16 for further details).

15 Creditors – Amounts falling due within one year

	2005 £'000	As restated 2004 £'000
Trade creditors	**691**	640
Amounts due to group undertakings	**34,514**	40,418
Corporation tax payable	**2,754**	2,900
Other taxation and social security	**1,479**	1,847
Accruals and deferred income	**2,351**	3,601
	41,789	49,406

Included in amounts due to group undertakings is an amount of £3,200,000 (2004: £3,200,000) due to Zimmer Inc which bears interest at a fixed annual rate of 6%. The loan is over a 10 year period but may be terminated by either party following 30 days notice. The loan is not secured.

All other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

16 Provisions for liabilities and charges

	Provision for legal and related professional fees £'000	Share options £'000	Future lease rentals £'000	Dilapidation £'000	Total £'000
At 1 January 2005	2,174	2,325	428	230	5,157
Charge to profit and loss	-	420	324	64	808
Transferred from group undertakings	-	-	90	-	90
Utilised during the year	(2,024)	(819)	(105)	-	(2,948)
At 31 December 2005	**150**	**1,926**	**737**	**294**	**3,107**

Provision for legal dispute and professional fees

Professional fees relate to a provision for the likely cost of defending proceedings taken against the company in France.. The information required by FRS 12, "Provisions and contingent liabilities" is not disclosed on the grounds that it can be expected to prejudice the outcome of the dispute. During the year the company made a payment of £2,024,000 into court in respect of the case. An amount of £1,518,000 is held in other debtors relating to the recoverability of part of this amount from a third party. The directors are of the opinion that the claim can be successfully defended and feel it is commercially desirable to defend the proceedings and therefore provision has been made for the likely professional costs of resolving the claim. Bank guarantees are in place for €3.2m in respect of these proceedings.

16 Provisions for liabilities and charges (continued)

Future lease rentals

Provisions for future lease rentals represent the present value, using a discount factor of 6% of residual commitments in respect of the closed sites in Swindon and Alton and will be utilised over the remaining lease terms of five years.

Share options

Share option scheme

Zimmer Holdings Inc. has established a stock option plan which permits employees of Zimmer Limited to acquire shares in Zimmer Holdings Inc.

Zimmer Limited bears the cost of the difference between the fair value of the stock on the date of exercise and the option price paid by the participants when they exercise options to acquire stock.

The company will become unconditionally liable to pay this charge upon exercise of the options and therefore the company makes a provision following the grant of options, as opposed to on vesting or on exercise.

The amount payable will depend on the number of UK employees who remain with the company and exercise their options and the market price of the ordinary shares at the time of exercise.

The provision of £1,926,000 (2004: £2,325,000) has been calculated based upon a market value at 31 December 2005 of $67.44 per share (2004: $80.12).

Employers national insurance on share options

On exercise of share options issued after 5 April 1999 under an unapproved share option scheme, the company is also 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 therefore makes a provision following the grant of options, in line with the share option provision above. The provision at 31 December 2005 was £219,000 (2004: £264,000). This amount is included in the provision of £1,926,000 (2004: £2,325,000) noted above.

Dilapidation

Dilapidation provision represents the estimated liability for dilapidations costs in respect of the company's lease hold premises.

17 Deferred taxation

	2005 £'000	As restated 2004 £'000
Accelerated capital allowances	**241**	168
Other timing differences	**298**	514
Deferred tax asset excluding that relating to pension liability	**539**	682
Pension asset	***1,005***	628
Total deferred tax asset	**1,544**	1,310

1 January as previously reported	**682**
Prior year adjustment – FRS17	**530**
1 January as restated	**1,212**
Deferred tax charge in profit and loss account (note 9)	**(166)**
Deferred tax charged to the statement of total recognised gains and losses	**498**
31 December 2005	**1,544**

18 Called up share capital

	2005 £'000	2004 £'000
Authorised, allotted and fully paid		
126,513,000 (2004: 107,713,000) ordinary shares of 25p each	**31,628**	26,928

On 23 September 2005 the authorised share capital of the company was increased from £26,928,250 to £31,628,250 by the creation of a further 18,800,000 ordinary shares of £0.25 each to rank pari passu in all respects with the existing ordinary shares of £0.25 each in the capital of the company.

On 24 September 2005, the company issued 18,800,000 shares of £0.25 each to Zimmer U.K. Limited in consideration for 1,050,000 £1 ordinary shares in Centerpulse (UK) Limited.

19 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 January 2005 as originally presented	89	30,464
Prior year adjustment – FRS17	-	(1,271)
At 1 January 2005 as restated	**89**	**29,193**
Retained profit for the financial year	-	4,629
Actuarial deficit on the pension scheme	-	(1,659)
Movement on deferred tax relating to pension scheme	-	498
At 31 December 2005	**89**	**32,661**

20 Reconciliation of movements in shareholders' funds

	2005 £'000	As restated 2004 £'000
Profit for the financial year	**4,629**	11,122
Net proceeds of issue of ordinary share capital (note 18)	**4,700**	-
Dividends	-	(7,000)
Actuarial deficit on pension scheme	**(1,659)**	(423)
Movement on deferred tax relating to pension scheme	**498**	127
Net addition to shareholders' funds	**8,168**	3,826
Opening shareholders' funds as previously reported	**57,481**	53,348
Prior year adjustment – FRS 17	**(1,271)**	(937)
Opening shareholders' funds as restated	**56,210**	52,411
Closing shareholders' funds	**64,378**	56,237

21 Pension costs

Defined contribution scheme

The company operates a defined contribution scheme for employees and directors. The scheme assets are held in a separately administered fund. Contributions paid in to the scheme during the year amounted to £53,000 (2004: £24,000). There were no amounts outstanding at the year end (2004: nil).

Defined benefit scheme

Zimmer operates one defined benefit scheme. A full actuarial valuation was carried out as at 31 December 2002 and updated to 31 December 2005 by a qualified independent actuary. The contribution made to the Fund in the accounting period was £872,000.

An actuarial valuation of liabilities was carried out as at 31 December 2005 by a qualified independent actuary at Mercer Human Resource Consulting to take account of the requirements of FRS17. Scheme assets are stated at their market value at 31 December 2005.

Valuation method:	**2005 Projected unit:**	2004 Projected unit:	2003 Projected unit:
Discount rate	**4.7%**	5.30%	5.40%
Inflation assumption	**2.8%**	2.70%	2.60%
Increases to deferred benefits during deferment	**2.8%**	2.70%	2.60%
Expected rate of future pension increases	**2.8%**	2.70%	2.60%
Rate of increase in salaries	**4.3%**	4.20%	4.10%

The assets in the scheme and the expected rate of return were:

	As at 31 December 2005		As at 31 December 2004		As at 31 December 2003	
	Expected rate of return	**Value £'000**	Expected rate of return	Value £'000	Expected rate of return	Value £'000
Equities	**5.6%**	**4,630**	6.00%	3,045	6.30%	2,506
Bonds	**4.4%**	**1,468**	4.90%	1,309	5.10%	1,065
Total market value of assets		**6,098**		4,354		3,571
Present value of scheme liabilities		**(9,449)**		(6,447)		(5,232)
Deficit in scheme		**(3,351)**		(2,093)		(1,661)
Related deferred tax asset		**1,005**		628		498
Net pension liability		**(2,346)**		(1,465)		(1,163)

The rate of the Zimmer scheme's assets to liabilities was 65 % (2004: 68%).

	2005 £'000	2004 £'000
Current service cost	**390**	485
Total operating charge	**390**	485

Analysis of amount credited to other finance income:	**2005 £'000**	2004 £'000
Expected return on pension scheme assets	**269**	231
Interest on pension scheme liabilities	**(350)**	(298)
Net return	**(81)**	(67)

Analysis of amount recognised in statement of total recognised gains and losses	**2005 £'000**	2004 £'000
Actual return less expected return on pension scheme assets	**649**	(67)
Experience gains and losses arising on the scheme liabilities	-	(87)
Changes in assumptions underlying the present value of the scheme liabilities	**(2,308)**	(269)
Actuarial loss recognised in STRGL	**(1,659)**	(423)

Movement in deficit during the year	**2005 £'000**	2004 £'000
Deficit in scheme at beginning of the year	**(2,093)**	(1,661)
Movement in year:		
Current service cost	**(390)**	(485)
Contributions	**872**	543
Other finance costs	**(81)**	(67)
Actuarial loss	**(1,659)**	(423)
Deficit in scheme at end of the year	**(3,351)**	(2,093)

History of experience gains and losses	**2005**	2004
	£'000	£'000
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	**649**	(67)
Percentage of scheme assets	**11%**	(2%)
Experience gains and losses on scheme liabilities:		
Amount (£'000)	**-**	(87)
Percentage of the present value of scheme liabilities	**0%**	(1%)
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	**(1,659)**	(423)
Percentage of the present value of scheme liabilities	**(18%)**	(7%)

22 Financial commitments

At 31 December 2005 the company had annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings		**Other**	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Within one year	**31**	25	**21**	87
Within two to five years	**210**	-	**87**	9
After five years	**183**	378	**-**	-
	424	403	**108**	96

23 Ultimate and immediate parent companies

At the year end and the date of signing the financial statements the immediate parent company was Zimmer U.K. Limited which is the parent undertaking of the smallest group to consolidate these financial statements. Consolidated accounts for Zimmer U.K. Limited can be obtained from The Secretary, Zimmer U.K Limited, The Courtyard, Lancaster Place, South Marston Park, Swindon, SN3 4NQ, United Kingdom.

The ultimate parent company and controlling party is Zimmer Holdings Inc., which is the parent undertaking of the largest group to consolidate these financial statements. Zimmer Holdings Inc. is incorporated in the State of Indiana, United States of America. Consolidated accounts for Zimmer Holdings Inc. can be obtained from The Secretary, Zimmer Holdings Inc., 345 East Main Street, Warsaw, Indiana 46580-0708, United States of America.