

Registered Number: 00740767

Zimmer Limited
Annual report
for the year ended 31 December 2010

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Zimmer Limited

Annual report for the year ended 31 December 2010

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Officers and professional advisers

Directors

M Humphris
B Melzi
C Ridgwell
A Massarella
J Cresser-Brown
C Jeffers

Company secretary

C Jeffers

Registered office

The Courtyard
Lancaster Place
South Marston Park
Swindon
Wiltshire
SN3 4FP

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

Directors' report for the year ended 31 December 2010

The directors present their report and the audited financial statements of the company for the year ended 31 December 2010

Principal activities

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

Review of the business and future developments

The company is a Limited Risk Distributor responsible for the sale of orthopaedic products acquired from a group undertaking. The company has previously entered into an Advance Pricing Agreement with HM Revenue and Customs to obtain a greater level of assurance over the transfer pricing model.

The external commercial environment is expected to remain competitive in 2011 and beyond. However, the directors expect continuing growth in the UK business in the future resulting in a continued strengthening of the company's balance sheet.

Results and dividends

The results for the company show turnover of £65,731,000 (2009 £65,060,000) and a pre-tax profit of £4,046,000 (2009 £3,863,000) per the profit and loss account. Sales increased by 1% from 2009.

The results for the financial year are shown in the profit and loss account on page 8.

The balance sheet for the company shows net assets including pension liability of £52,428,000 (2009 £49,008,000).

An interim dividend of 0.18p (2009 0.34p) per ordinary share amounting to £229,000 was paid during the financial year (2009 £428,000). The directors do not recommend the payment of a final dividend (2009 £nil). See note 9 for further information.

Key performance indicators

Financial key performance indicators for the Zimmer group (being Zimmer Holdings Inc and its subsidiaries), which includes Zimmer Limited, are shown within the Financial Highlights section of Zimmer Holdings Inc Annual Report.

Principal risks and uncertainties

The company's success depends upon the Zimmer group's ability to effectively develop its products and the company's ability to market those products against those of our company's competitors.

Further information on risks and uncertainties for the Zimmer group are shown within the Zimmer Holdings Inc Annual Report on page 13.

Research and development

Research and development expenditure relates to ongoing clinical trials and regulatory projects. Research and development during the financial year was £120,000 (2009 £415,000).

**Directors' report for the year ended 31 December 2010
(continued)****Directors**

The directors who held office during the financial year and up to the date of signing the financial statements are given below

M Humphris
B Melzi
C Ridgwell
C Jeffers (Company secretary)
A Massarella
J Cresser-Brown

The directors have the benefit of qualifying third party indemnity provisions for the purpose of sections 234 of the Companies Act 2006. The qualifying third party indemnity provisions were in force during the financial year and also at the date of approval of the financial statements

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, credit risk, liquidity risk and interest rate risk. However the company has limited exposure to commodity price risk. The board of directors sets the financial risk management policies and monitors them.

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 Holdings 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 22.

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.

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. During the financial year the only intercompany borrowing held by the company was repaid in full. No financial instruments were used by the company during the year to manage interest rate costs, and therefore no hedge accounting has been applied.

Charitable donations

The company has made charitable donations during the financial year of £1,700 (2009 £2,235)

Directors' report for the year ended 31 December 2010 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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

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

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

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 2010 was 29 days (2009: 33 days).

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that, so far as each of the directors are individually aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware. Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Directors' report for the year ended 31 December 2010
(continued)**

Independent auditors

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

On behalf of the Board


C Jefferys
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 2010 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

Matters on which we are required to report by exception (continued)

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

Gavin Crawford (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

16 September 2011

Profit and loss account for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Turnover	2	65,731	65,060
Cost of sales		(50,683)	(49,965)
Gross profit		15,048	15,095
Distribution costs		(10,936)	(10,622)
Administrative expenses		(1,482)	(1,871)
Other operating income		208	201
Operating profit	3	2,838	2,803
Interest receivable and similar income	6	1,330	1,264
Interest payable and similar charges	7	(190)	(236)
Other finance income	19	68	32
Profit on ordinary activities before taxation		4,046	3,863
Tax on profit on ordinary activities	8	(683)	(1,143)
Profit for the financial year	17, 18	3,363	2,720

All results derive from continuing operations

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


Statement of total recognised gains and losses for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Profit for the financial year		3,363	2,720
Actuarial (loss) on pension scheme	19	(324)	(1,221)
Movement on deferred tax relating to pension scheme	15, 18	91	342
Total recognised gains relating to the financial year		3,130	1,841

Balance sheet as at 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	10	286	302
Investments	11	4,347	4,347
		4,633	4,649
Current assets			
Debtors – amounts falling due within one year	12	17,656	16,943
Debtors – amounts falling due after more than one year	12	37,216	37,216
Cash at bank and in hand		4,954	4,488
		59,826	58,647
Creditors – amounts falling due within one year	13	(12,995)	(14,327)
Net current assets		46,831	44,320
Total assets less current liabilities		51,464	48,969
Provision for liabilities	14	(361)	(520)
Net assets excluding pension asset		51,103	48,449
Pension surplus	19	1,325	559
Net assets including pension asset		52,428	49,008
Capital and reserves			
Called up share capital	16	31,628	31,628
Share premium account	17	89	89
Profit and loss account	17	18,039	15,138
Other reserves	17	2,672	2,153
Total shareholders' funds	18	52,428	49,008

The financial statements on pages 8 to 30 were approved by the board of directors on 16 September 2011 and were signed on its behalf by


C Jefferys
Director

Registered Number 00740767

Notes to the financial statements for the year ended 31 December 2010

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 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the financial year, are set out below.

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 section 401 of the Companies Act 2006 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 Holdings Inc. Zimmer Holdings Inc is the parent undertaking of the smallest and largest group to consolidate these financial statements at 31 December 2010.

Copies of the consolidated financial statements of Zimmer Holdings Inc can be obtained from

The Company Secretary
Zimmer Holdings Inc
345 East Main Street
Warsaw
Indiana 46580-0708
United States of America

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 recognised upon the placement of inventory into consignment as the Zimmer Group retains title and maintains the inventory on its consolidated balance sheet. Upon use, the company issues an invoice and revenue is recognised.

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.

Notes to the financial statements for the year ended 31 December 2010 (continued)

1 Accounting policies (continued)

Turnover (continued)

Revenue is recognised on sales to stocking distributors and healthcare dealers when title to product passes to the distributor or healthcare dealer, generally upon shipment. Products are generally sold to distributors on secured credit terms at fixed prices for specified periods. A distributor may return the 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

Tangible fixed assets are stated in the balance sheet at cost less accumulated depreciation.

The cost of fixed assets is their historic 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%

Operating leases

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

Research and development

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

Foreign currency

Transactions denominated in foreign currencies are translated to sterling at the rate of exchange prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate 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 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.

Notes to the financial statements for the year ended 31 December 2010 (continued)**1 Accounting policies (continued)****Deferred taxation (continued)**

Deferred tax is measured at the average tax rates that are expected to apply in the periods 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 an undiscounted basis.

Pension cost

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 19 to the financial statements.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the company's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

For the defined contribution scheme, contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. Any difference between contributions payable and contributions paid are included as either a prepayment or an accrual in the balance sheet.

Dividends

Interim dividends are recognised when they are paid. Final dividends are recognized when they are approved by shareholders.

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.

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.

Investments

Investments in subsidiaries are stated in the balance sheet of the company at cost, less amounts written off where there has been an impairment in value. Impairment reviews are conducted on an annual basis.

Notes to the financial statements for the year ended 31 December 2010 (continued)**1 Accounting policies (continued)****Trade debtors**

Trade debtors are carried at fair value. As a Limited Risk Distributor the credit risk for trade debtors is borne by a fellow group company and therefore no bad debt provision is maintained by the company.

Other operating income

The company earns management services fees on the provision of certain services to a group undertaking. This income is recognised when it is earned, i.e. when the services are performed.

Share-based payment

The ultimate parent company, Zimmer Holdings Inc, operates an equity-settled, share-based compensation plan. 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 over the vesting period, with a corresponding increase in other reserves. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to other reserves.

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

Cash flow statement

The company is a wholly-owned subsidiary of Zimmer Holdings 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) 'Cash flow statement'.

Related party disclosure

The company is exempt under the terms of Financial Reporting Standard 8 'Related party disclosures' from disclosing related party transactions with entities that are part of the Zimmer Holdings Inc group as it is a wholly owned subsidiary of the group.

Notes to the financial statements for the year ended 31 December 2010 (continued)

2 Turnover

The geographical analysis of turnover by destination is as follows

	2010 £'000	2009 £'000
United Kingdom	64,958	63,929
Rest of Europe	773	1,131
	65,731	65,060

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

3 Operating profit

	2010 £'000	2009 £'000
Operating profit is stated after charging:		
Wages and salaries	5,735	5,597
Social security costs	687	775
Pension costs (note 19)	530	467
Share based payment – fair value of employee services (note 21)	638	649
Staff costs	7,590	7,488
Research and Development expenditure	120	415
Depreciation of owned tangible fixed assets	167	264
Loss on disposal of tangible fixed assets	2	16
Operating lease charges		
- other	539	493
(Gain) / Loss on foreign currency movements	(105)	104

Included in social security costs is a credit of £2,000 (2009 charge of £120,000) in relation to the movement on the provision for National Insurance payable on share options. See note 14 for further details

	2010 £'000	2009 £'000
Services provided by the company's auditor and network firms		
Fees payable to company auditors for the audit	87	96
Fees payable to company auditors and its associates for other services:		
Taxation services	-	13
Other assurance services pursuant to legislation	5	7

Notes to the financial statements for the year ended 31 December 2010 (continued)

4 Employee information

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

	2010	2009
By activity	Number	Number
Research and development	-	3
Selling and marketing	99	78
Administration	21	29
	120	110

5 Directors' emoluments

	2010	2009
	£'000	£'000
Aggregate emoluments	775	721
Employer's pension contributions	89	109

In addition to the above amounts one (2009 one) director is employed by an Italian subsidiary of Zimmer Holdings Inc. This director was remunerated by the Italian company for his services to the Zimmer Holdings Inc worldwide group, which included certain responsibilities relating to Zimmer Limited. However, the exact value of these services cannot be determined and therefore not included in the financial statements.

Two directors (2009 two) exercised options over the shares in the parent company Zimmer Holdings Inc, during the financial year. Retirement benefits are accruing to four (2009 four) directors under a defined benefit scheme and no (2009 none) directors under a money purchase scheme.

The emoluments of the highest paid director were as follows

	2010	2009
	£'000	£'000
Aggregate emoluments	170	161
Defined benefit pension scheme		
Accrued pension at end of year	31	27

The highest paid director did not exercise options over the shares in the parent company Zimmer Holdings Inc, during the financial year (2009 did not exercise).

Notes to the financial statements for the year ended 31 December 2010 (continued)

6 Interest receivable and similar income

	2010	2009
	£'000	£'000
Interest receivable on loans to group undertakings	567	1,231
Third party interest receivable	763	33
Total interest payable and similar charges	1,330	1,264

7 Interest payable and similar charges

	2010	2009
	£'000	£'000
Interest payable on loans from group undertakings	190	231
Third party interest payable	-	5
Total interest payable and similar charges	190	236

8 Tax on the profit on ordinary activities

	2010	2009
	£'000	£'000
Current tax		
UK corporation tax on profits for the year	821	1,029
Adjustment in respect of prior years	-	-
Foreign Tax		
Adjustment in respect of prior years	(506)	-
Total current tax	315	1,029
Deferred tax		
Origination and reversal of timing differences	345	114
Effect of changes in tax rate on opening balance	23	-
Total deferred tax (note 15)	368	114
Total tax on profit on ordinary activities	683	1,143

The tax assessed for the financial year is lower (2009 lower) than the effective rate of corporation tax in the UK of 28 % (2009 28%) The differences are explained below

Notes to the financial statements for the year ended 31 December 2010 (continued)

8 Tax on the profit on ordinary activities (continued)

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	4,046	3,863
Profit on ordinary activities multiplied by the standard rate of corporation tax of 28 % (2009 28%)	1,133	1,082
Effects of		
Expenses not deductible for tax purposes	34	61
Other timing differences	(266)	(41)
Capital allowances in excess of depreciation	(80)	(73)
Adjustments to tax charge in respect of previous periods	(506)	-
Amounts transferred to statement of total recognised gains and losses	-	-
Total current tax	315	1,029

Factors that may affect future tax charges

During the year, as a result of the change in the UK main corporation tax rate from 28% to 27% that was substantively enacted on 20 July 2010 and that will be effective from 1 April 2011, the relevant deferred tax balances have been re-measured

In addition to the changes in rates of corporation tax disclosed above a number of further changes to the UK Corporation tax system were announced in March 2011 UK Budget Statement. A resolution was passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2011 was substantively enacted on 5 July 2011, after the balance sheet date. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. The proposed reductions of the main rate of corporation tax by 1% per to 23% by 1 April 2014 are expected to be enacted separately each year. None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Deferred tax balances have not been discounted

9 Dividends

	2010 £'000	2009 £'000
Equity – Ordinary		
Interim paid £0.0018 (2009 £0.0034) per £0.25 share	229	428

Notes to the financial statements for the year ended 31 December 2010 (continued)

10 Tangible fixed assets

	Short term leasehold improvements £'000	Motor vehicles, fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2010	668	1,092	1,760
Additions	5	148	153
Disposals	-	(32)	(32)
At 31 December 2010	673	1,208	1,881
Accumulated depreciation			
At 1 January 2010	636	822	1,458
Charge for the year	25	142	167
Disposals	-	(30)	(30)
At 31 December 2010	661	934	1,595
Net book amount			
At 31 December 2010	12	274	286
At 31 December 2009	32	270	302

11 Fixed asset investments

Shares in group undertakings	2010	2009
	£'000	£'000
At 1 January and 31 December	4,347	4,347

Investments are stated at cost which is equal to net book value

At 31 December 2010 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%

The capital and reserves of Zimmer Trustees Limited at 31 December 2010 was £nil (2009 £nil)
Zimmer Trustees Limited was dormant throughout the whole year

The capital and reserves of Centerpulse (UK) Limited at 31 December 2010 was £4,347,000 (2009
£4,347,000) Centerpulse (UK) Limited was dormant throughout the whole year

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

Notes to the financial statements for the year ended 31 December 2010 (continued)

12 Debtors

	2010 £'000	2009 £'000
Trade debtors	9,629	9,969
Amounts owed by group undertakings	40,264	40,279
Corporation tax recoverable	-	246
Other debtors	3,311	2,063
Deferred tax (note 15)	1,111	1,116
Prepayments and accrued income	557	486
Total	54,872	54,159
Less: Amounts falling due in more than one year		
Amounts owed by group undertakings	37,216	37,216
Total amounts falling due within one year	17,656	16,943

The amounts falling due in more than one year owed by group undertakings is owed by Zimmer Investment Luxembourg SCA. Under the terms of this loan agreement the loan will continue until no later than 31 July 2016 and is unsecured. 31 July 2016 is the earliest date that repayment of the loan can be demanded, except in the event of default by the borrower. 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 GBP LIBOR plus 25 basis points. Interest accruing is payable by 2 instalments due in January and July.

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

An amount of £2,605,000 (2009: £2,057,000) is included within other debtors which relates to the recovery of a payment made in relation to an overseas tax dispute. A further amount of £687,000 is also included within other debtors which relates to interest received on the overseas tax. The total amount was recovered in full after the balance sheet date.

13 Creditors – Amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	638	323
Amounts due to group undertakings	9,339	11,130
Corporation tax payable	287	-
Other taxation and social security	449	418
Accruals and deferred income	2,282	2,449
Other creditors	-	7
	12,995	14,327

Notes to the financial statements for the year ended 31 December 2010 (continued)

13 Creditors – Amounts falling due within one year (continued)

All amounts owed to group undertakings are unsecured, interest free and repayable on demand (2009 Included in amounts due to group undertakings is an amount of £3,200,000 due to Zimmer Inc which bears interest at a fixed annual rate of 6% This loan is over a 10 year period but may be terminated by either party following 30 days notice This loan is not secured)

14 Provisions for liabilities and charges

	Provision for legal and related professional fees £'000	Share Options – National Insurance £'000	Onerous lease £'000	Dilapidation £'000	Total £'000
1 January 2010	28	132	135	225	520
Credit to profit and loss	(12)	(2)	(53)	(41)	(108)
Charge to profit and loss	-	-	-	16	16
Utilised during the year	(16)	-	(50)	(1)	(67)
31 December 2010	-	130	32	199	361

Provision for legal dispute and professional fees

The prior year provision was in respect of a legal dispute with a ex employee This was resolved during the financial year

Share options – National Insurance

The ultimate parent company, Zimmer Holdings Inc, operates an unapproved share-based compensation plan Under an unapproved share option scheme, the company is required to pay National Insurance on the difference between the grant 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 grant prices A full provision is made upon grant of the option 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

Onerous lease

Provisions for future lease rentals represent the residual commitments in respect of the closed site in Swindon and will be utilised over the remaining lease term of two years

Dilapidation

Dilapidation provision represents the estimated liability for dilapidations costs in respect of the company's leasehold premises The liability will be payable at the end of the lease term of each of the premises The average remaining time until this provision will be utilised is five years

Notes to the financial statements for the year ended 31 December 2010 (continued)

15 Deferred taxation

	2010 £'000	2009 £'000
Capital allowances in excess of depreciation	322	413
Other timing differences	789	703
Deferred tax asset excluding that relating to pension asset (note 12)	1,111	1,116
Deferred tax liability on pension asset (note 19)	(489)	(217)
Total deferred tax asset	622	899
1 January	1,116	1,075
Deferred tax (charged)/credited to profit and loss account (note 8)	(5)	41
31 December	1,111	1,116
Deferred tax liability relating to pension asset	2010 £'000	2009 £'000
1 January	(217)	(404)
Deferred tax charged to profit and loss account	(363)	(155)
Deferred tax credited to the statement of total recognised gains and losses	91	342
31 December	(489)	(217)

16 Called up share capital

	2010 £'000	2009 £'000
Authorised, allotted and fully paid		
126,513,000 (2009 126,513,000) ordinary shares of 25p each	31,628	31,628

Notes to the financial statements for the year ended 31 December 2010 (continued)

17 Reserves

	Share premium account £'000	Profit and loss account £'000	Other reserves £'000
At 1 January 2010	89	15,138	2,153
Profit for the financial year	-	3,363	-
Dividends (note 9)	-	(229)	-
Actuarial loss on pension scheme (note 19)	-	(324)	-
Movement on deferred tax relating to pension scheme (note 15)	-	91	-
Share based payment services provided (note 21)	-	-	638
Share based payment recharge paid to ultimate parent	-	-	(119)
At 31 December 2010	89	18,039	2,672

18 Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Profit for the financial year	3,363	2,720
Dividends (note 9)	(229)	(428)
Actuarial (loss) on pension scheme (note 19)	(324)	(1,221)
Movement on deferred tax relating to pension scheme	91	342
	2,901	1,413
Net increase in other reserves	519	407
Net addition to shareholders' funds	3,420	1,820
Opening shareholders' funds	49,008	47,188
Closing shareholders' funds	52,428	49,008

Notes to the financial statements for the year ended 31 December 2010 (continued)

19 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 financial year amounted to £198,000 (2009 £184,000). £16,000 was outstanding at the year end (2009 £nil).

Defined benefit scheme

Zimmer Limited operates a defined benefit scheme. A full actuarial valuation was carried out as at 31 December 2008 and updated to 31 December 2010 by a qualified independent actuary at Mercer Human Resource Consulting to take account of the requirements of Financial Reporting Standard 17 'Retirement benefits'. The contribution made to the fund in the financial year was £1,626,000 (2009 £800,000).

Scheme assets are stated at their market value at 31 December 2010.

The valuation method and key assumptions used by the actuary are as follows:

Valuation method:	2010 Projected unit:	2009 Projected unit	2008 Projected unit
Discount rate	5.30%	5.70%	5.85%
Inflation assumption	3.60%	3.75%	3.00%
Increases to deferred benefits during deferment	3.60%	3.00%	3.00%
Expected rate of future pension increases	3.60%	3.00%	3.00%
Rate of increase in salaries	4.95%	5.10%	4.35%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics. Mortality assumptions are based on the S1NA Light table rated down by 1 year for females with a medium cohort projection and a 1% minimum improvement floor.

The average life expectancy in years of a pensioner retiring at age 65 is as follows:

	2010 £'000	2009 £'000
Retiring at the end of the reporting period		
Male	22.7	22.6
Female	25.1	25.0
Retiring 20 years after the end of the reporting period		
Male	24.5	24.4
Female	27.0	26.9

Notes to the financial statements for the year ended 31 December 2010 (continued)

19 Pension costs (continued)

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

	As at 31 December 2010		As at 31 December 2009		As at 31 December 2008	
	Expected rate of return	Value £'000	Expected rate of return	Value £'000	Expected rate of return	Value £'000
Equities	5.65%	9,781	6.00%	7,917	5.35%	6,274
Bonds	4.85%	6,253	5.10%	5,062	5.30%	4,544
Total market value of assets		16,034		12,979		10,818
Present value of scheme liabilities		(14,220)		(12,203)		(9,375)
Surplus in scheme		1,814		776		1,443
Related deferred tax liability (note 15)		(489)		(217)		(404)
Net pension surplus		1,325		559		1,039

	2010 £'000	2009 £'000
Reconciliation of present value of scheme liabilities		
1 January	12,203	9,375
Current service cost	332	278
Interest cost	702	553
Insurance premiums	(5)	(11)
Contributions paid by members	105	123
Benefits paid	(198)	(250)
Actuarial loss	1,081	2,135
31 December	14,220	12,203

	2010 £'000	2009 £'000
Reconciliation of present value of scheme assets		
1 January	12,979	10,818
Expected return on scheme assets	770	585
Actuarial gains/(losses)	757	914
Insurance premiums	(5)	(11)
Contributions paid by members	105	123
Benefits paid	(198)	(250)
Contributions paid by employer	1,626	800
31 December	16,034	12,979

Notes to the financial statements for the year ended 31 December 2010 (continued)

19 Pension costs (continued)

The proportion of the Zimmer Limited scheme's assets to liabilities was 113% (2009 106%)

Analysis of the amount charged to operating profit:	2010 £'000	2009 £'000
Current service cost	332	278
Analysis of amount credited to other finance income	2010 £'000	2009 £'000
Expected return on pension scheme assets	770	585
Interest on pension scheme liabilities	(702)	(553)
Other finance income	68	32
Analysis of amount recognised in statement of total recognised gains and losses	2010 £'000	2009 £'000
Actual return less expected return on pension scheme assets	757	914
Changes in assumptions underlying the present value of the scheme liabilities	(1,081)	(2,135)
Actuarial loss recognised in statement of total recognised gains and losses	(324)	(1,221)

Notes to the financial statements for the year ended 31 December 2010 (continued)

19 Pension costs (continued)

History of experience gains/(losses)	2010	2009	2008	2007	2006
Benefit obligation at end of year (£'000)	14,220	12,203	9,375	10,124	9,775
Fair value of plan assets at end of year (£'000)	16,034	12,979	10,818	9,665	7,474
Surplus/(deficit) (£'000)	1,814	776	1,443	(459)	(2,301)
Difference between the expected and actual return on scheme assets					
Amount (£'000)	757	914	(2,001)	(206)	412
Percentage of scheme assets	5%	7%	(18%)	(2%)	5.5%
Experience gain/(loss) on scheme liabilities					
Amount (£'000)	-	413	-	-	(30)
Percentage of the present value of scheme liabilities	0%	3%	0%	0%	0%
Total amount recognised in statement of total recognised gains and losses					
Amount (£'000)	(324)	(1,221)	(235)	488	676
Percentage of the present value of scheme liabilities	(2%)	(10%)	(3%)	5%	7%

The Directors expect to make contributions of £1,626,000 in 2011

20 Financial commitments

At 31 December 2010 the company had annual commitments under non-cancellable operating leases expiring as follows

	Land and buildings		Other	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Within one year	-	35	83	58
Within two to five years	196	196	213	203
After five years	-	-	-	-
	196	231	296	261

Notes to the financial statements for the year ended 31 December 2010 (continued)

21 Share-based payment

Zimmer Holdings Inc. has established equity settled stock option plans which permit employees of Zimmer Limited to acquire shares in Zimmer Holdings Inc. The 2009 Stock Incentive Plan (which replaced the 2006 Stock Incentive Plan and TeamShare Stock Option Plan) provides for the grant of non-qualified stock options and incentive stock options, long-term performance awards in the form of performance shares or units, restricted stock, RSUs (Restricted Stock Units) and stock appreciation rights.

Stock options granted to date generally vest over four years, although in no event in less than one year, and expire ten years from the date of the grant. Stock options are granted with an exercise price equal to the market price of common stock on the date of grant.

A reconciliation of option movements over the year to 31 December 2010 is shown below.

	2010		2009	
	Number of options	Weighted average Exercise Price \$	Number of options	Weighted average Exercise Price \$
Outstanding at start of the year	240,857	67.51	237,353	72.24
Granted	30,170	58.02	36,800	39.94
Cancelled	(11,369)	60.60	(29,970)	74.69
Exercised	(8,275)	34.75	(3,326)	35.65
Outstanding at end of the year	251,383	67.76	240,857	67.51
Exercisable at end of the year	177,626	71.03	153,143	70.46

The weighted average fair value of options granted during the financial year was \$549,000 (2009 \$589,000).

RSUs granted to date generally vest over four years, although in no event in less than one year, and expire ten years from the date of the grant. The fair value of RSUs granted is based upon the fair market value of common stock on the date of grant.

A reconciliation of RSU movements over the year to 31 December 2010 is shown below.

	2010	2009
	Number of RSUs	Number of RSUs
Outstanding at start of the year	8,853	-
Granted	12,694	9,103
Cancelled	(3,025)	(250)
Vested	(601)	-
Outstanding at end of the year	17,921	8,853

Notes to the financial statements for the year ended 31 December 2010 (continued)

21 Share-based payment (continued)

The weighted average fair value of RSUs granted during the year was \$733,000 (2009 \$364,000)

The total charge for the financial year relating to employee share based payment plans for which fair value accounting is being applied was £638,000 (2009 £649,000), all of which related to equity-settled share based payment transactions. After deferred tax, the total charge was £552,000 (2009 £535,000)

The USD to GBP exchange rate at 31 December 2010 was \$1.5405/£ (2009 \$1.5971/£)

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

31 December 2010:

Range of exercise prices	Number of shares	Options outstanding			Number of shares	Options exercisable	
		Weighted average Remaining expected life (years)	Weighted average remaining contractual life (years)	Weighted average exercise price \$		Weighted average remaining contractual life (years)	Weighted average exercise price \$
\$20.00 - \$40.00	39,015	6.79	6.79	38.54	18,840	5.36	37.04
\$40.01 - \$60.00	32,857	8.45	8.45	57.1	3,807	2.60	50.12
\$60.01 - \$70.00	11,357	4.89	4.89	67.18	11,314	4.88	67.18
\$70.01 - \$80.00	143,479	5.06	5.06	75.44	124,125	4.73	75.17
\$80.01 - \$90.00	24,675	6.11	6.11	83.76	19,540	6.11	83.76

31 December 2009

Range of exercise prices	Number of shares	Options outstanding			Number of shares	Options exercisable	
		Weighted average Remaining expected life (years)	Weighted average remaining contractual life (years)	Weighted average exercise price \$		Weighted average remaining contractual life (years)	Weighted average exercise price \$
\$20.00 - \$40.00	51,390	7.02	7.02	37.97	15,490	2.30	33.59
\$40.01 - \$60.00	4,081	3.60	3.60	50.12	4,081	3.60	50.12
\$60.01 - \$70.00	12,257	5.87	5.87	67.27	10,423	5.73	67.55
\$70.01 - \$80.00	147,254	6.10	6.10	75.46	107,444	5.43	75.09
\$80.01 - \$90.00	25,875	7.11	7.11	83.76	15,255	7.11	83.75

The weighted average share price during the financial year for options exercised over the year was \$51.65 (2009 \$55.53)

Notes to the financial statements for the year ended 31 December 2010 (continued)

21 Share-based payment (continued)

For RSUs outstanding at the end of the year weighted average remaining contractual life is as follows

Exercise price	31 December 2010			Number of shares	31 December 2009	
	Number of shares	Weighted average remaining expected life (years)	Weighted average remaining contractual life (years)		Weighted average remaining expected life (years)	Weighted average remaining contractual life (years)
\$0.00	17,921	8.88	8.88	8,853	9.14	9.14

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

	2010	2009
Vesting period (years)	4	4
Expected volatility	26.1%	41.8%
Option life (years)	10	10
Expected life (years)	5.9	5.4
Risk free rate	2.81	1.65%
Expected dividend yield	0%	0%
Fair value per option	\$18.20	\$16.01

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. For stock options granted in 2010 and 2009 expected volatility was derived from the implied volatility of traded options that were actively traded around the grant date of the stock options.

The expected term assumption has been derived from historical employee exercise behaviour.

The risk free rate of return is determined using the implied yield currently available for zero coupon US government bonds with a remaining term equal to the expected life of the options.

**Notes to the financial statements for the year ended 31
December 2010 (continued)**

22 Ultimate parent undertakings and controlling party

At the year end and at the date of signing the financial statements the immediate parent company was Zimmer U K Limited

The ultimate parent company and controlling party is Zimmer Holdings Inc , which is the parent undertaking of the smallest and largest group to consolidate these financial statements Zimmer Holdings Inc is incorporated in the State of Indiana, United States of America Consolidated a financial statements 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