Registered Number: 00740767

# Zimmer Limited
# Annual report
# for the year ended 31 December 2011

# Zimmer Limited

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# for the year ended 31 December 2011

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# Officers and professional advisers

| | |
|---|---|
| **Directors** | M Humphris<br>B Melzi<br>C Ridgwell<br>A Massarella<br>J Cresser-Brown<br>C Jefferis |
| **Company secretary** | C Jefferis |
| **Registered office** | The Courtyard<br>Lancaster Place<br>South Marston Park<br>Swindon<br>Wiltshire<br>SN3 4FP |
| **Independent auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants and<br>Statutory Auditors<br>9 Greyfriars Road<br>Reading<br>Berkshire<br>RG1 1JG |

# Directors' report for the year ended 31 December 2011

The directors present their report and the audited financial statements of the company for the year ended 31 December 2011

**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 2012 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 £67,980,000 (2010 £65,731,000) and a pre-tax profit of £3,739,000 (2010 £4,046,000) Sales increased by 3% from 2010

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 surplus of £54,920,000 (2010 £52,428,000)

An interim dividend of 0 30p (2010 0 18p) per ordinary share amounting to £379,000 was paid during the financial year (2010 £229,000) The directors do not recommend the payment of a final dividend (2010 £nil) See note 9 for further information

**Key performance indicators**

Financial key performance indicators ("KPI's")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 which does not form part of this report Given the nature of the company, the directors believe analysis using KPI's for the company is not necessary or appropriate for an understanding of the development, performance or position of the business

**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 which does not form part of this report

**Research and development**

Research and development expenditure relates to ongoing clinical trials and regulatory projects Research and development costs incurred during the financial year was £1,000 (2010 £120,000)

# Directors' report for the year ended 31 December 2011 (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 Jefferis (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 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 £1,500 (2010 £1,700)

# Directors' report for the year ended 31 December 2011 (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 2011 was 33 days (2010 29 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 2011 (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 Jefferis
**Director**
31 August 2012

# Independent auditors' report to the members of Zimmer Limited

We have audited the financial statements of Zimmer Limited for the year ended 31 December 2011 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

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

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on financial statements**
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Stephen Pascoe

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

31 August 2012

## Profit and loss account for the year ended 31 December 2011

| | Note | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Turnover** | 2 | **67,980** | 65,731 |
| Cost of sales | | **(52,177)** | (50,683) |
| **Gross profit** | | **15,803** | 15,048 |
| Distribution costs | | **(11,211)** | (10,936) |
| Administrative expenses | | **(1,873)** | (1,482) |
| Other operating income | | **174** | 208 |
| **Operating profit** | 3 | **2,893** | 2,838 |
| Interest receivable and similar income | 6 | **717** | 1,330 |
| Interest payable and similar charges | 7 | **(1)** | (190) |
| Other finance income | 19 | **130** | 68 |
| **Profit on ordinary activities before taxation** | | **3,739** | 4,046 |
| Tax on profit on ordinary activities | 8 | **(1,067)** | (683) |
| **Profit for the financial year** | 17, 18 | **2,672** | 3,363 |

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 2011

| | Note | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| Profit for the financial year | | **2,672** | 3,363 |
| Actuarial (loss) on pension scheme | 19 | **(463)** | (324) |
| Movement on deferred tax relating to pension scheme | 15, 18 | **123** | 91 |
| Total recognised gains relating to the financial year | | **2,332** | 3,130 |

# Balance sheet as at 31 December 2011

| | Note | **2011** **£'000** | 2010 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 10 | **195** | 286 |
| Investments | 11 | **4,347** | 4,347 |
| | | **4,542** | 4,633 |
| **Current assets** | | | |
| Debtors – amounts falling due within one year | 12 | **17,752** | 17,656 |
| Debtors – amounts falling due after more than one year | 12 | **37,216** | 37,216 |
| Cash at bank and in hand | | **7,274** | 4,954 |
| | | **62,242** | 59,826 |
| **Creditors – amounts falling due within one year** | 13 | **(13,582)** | (12,995) |
| **Net current assets** | | **48,660** | 46,831 |
| **Total assets less current liabilities** | | **53,202** | 51,464 |
| Provision for liabilities | 14 | **(328)** | (361) |
| **Net assets excluding pension asset** | | **52,874** | 51,103 |
| Pension surplus | 19 | **2,046** | 1,325 |
| **Net assets including pension asset** | | **54,920** | 52,428 |
| | | | |
| **Capital and reserves** | | | |
| Called up share capital | 16 | **31,628** | 31,628 |
| Share premium account | 17 | **89** | 89 |
| Profit and loss account | 17 | **19,992** | 18,039 |
| Other reserves | 17 | **3,211** | 2,672 |
| **Total shareholders' funds** | 18 | **54,920** | 52,428 |

The financial statements on pages 8 to 31 were approved by the board of directors on 31 August 2012 and were signed on its behalf by

C Jefferis
**Director**

Registered Number 00740767

# Notes to the financial statements for the year ended 31 December 2011

## 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 2011

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

# Notes to the financial statements for the year ended 31 December 2011 (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 2011 (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 when there is an indication that assets might be impaired

# Notes to the financial statements for the year ended 31 December 2011 (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 2011 (continued)

## 2 Turnover

The geographical analysis of turnover by destination is as follows

| | 2011 | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| United Kingdom | **68,064** | 64,958 |
| Rest of Europe | **(84)** | 773 |
| | **67,980** | 65,731 |

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

## 3 Operating profit

| | 2011 | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| **Operating profit is stated after charging:** | | |
| Wages and salaries | **6,267** | 5,735 |
| Social security costs | **806** | 687 |
| Pension costs (note 19) | **564** | 530 |
| Share based payment – fair value of employee services (note 21) | **564** | 638 |
| **Staff costs** | **8,201** | 7,590 |
| | | |
| Research and Development expenditure | **1** | 120 |
| Depreciation of owned tangible fixed assets | **128** | 167 |
| Loss on disposal of tangible fixed assets | **3** | 2 |
| Operating lease charges | | |
| - other | **513** | 539 |
| Loss/(Gain) on foreign currency movements | **134** | (105) |

Included in social security costs is a charge of £6,000 (2010 credit of £2,000) in relation to the movement on the provision for National Insurance payable on share options See note 14 for further details

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 3 Operating profit (continued)

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Services provided by the company's auditor and network firms** | | |
| Fees payable to company auditors for the audit | **81** | 87 |
| **Fees payable to company auditors and its associates for other services.** | | |
| Other assurance services pursuant to legislation | **4** | 5 |

## 4 Employee information

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

| By activity | 2011 Number | 2010 Number |
|---|---|---|
| Research and development | | - |
| Selling and marketing | **96** | 99 |
| Administration | **19** | 21 |
| | **115** | 120 |

## 5 Directors' emoluments

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Aggregate emoluments | **846** | 775 |
| Employer's pension contributions | **91** | 89 |

In addition to the above amounts one (2010 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

One director (2010 two) exercised options over the shares in the parent company Zimmer Holdings Inc, during the financial year Retirement benefits are accruing to four (2010 four) directors under a defined benefit scheme and no (2010 none) directors under a money purchase scheme

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 5 Directors' emoluments (continued)

The emoluments of the highest paid director were as follows

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Aggregate emoluments | 196 | 170 |
| Defined benefit pension scheme | | |
| Accrued pension at end of year | 44 | 31 |

The highest paid director did not exercise options over the shares in the parent company Zimmer Holdings Inc , during the financial year (2010 did not exercise)

## 6 Interest receivable and similar income

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Interest receivable on loans to group undertakings | 675 | 567 |
| Third party interest receivable | 42 | 763 |
| Total interest receivable and similar income | 717 | 1,330 |

## 7 Interest payable and similar charges

| | 2011 | 2010 |
|---|---|---|
| | £'000 | £'000 |
| Interest payable on loans from group undertakings | - | 190 |
| Third party interest payable | 1 | - |
| Total interest payable and similar charges | 1 | 190 |

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 8 Tax on the profit on ordinary activities

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax on profits for the year | 698 | 821 |
| Adjustment in respect of prior years | - | - |
| **Foreign Tax** | | |
| Adjustment in respect of prior years | - | (506) |
| Total current tax | 698 | 315 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | 335 | 345 |
| Effect of changes in tax rate on opening balance | 34 | 23 |
| Total deferred tax (note 15) | 369 | 368 |
| Total tax on profit on ordinary activities | 1,067 | 683 |

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

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Profit on ordinary activities before taxation | 3,739 | 4,046 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax of 26 5% (2010 28%) | 991 | 1,133 |
| Effects of | | |
| Expenses not deductible for tax purposes | 42 | 34 |
| Other timing differences | (279) | (266) |
| Capital allowances in excess of depreciation | (56) | (80) |
| Adjustments to tax charge in respect of previous periods | - | (506) |
| Amounts transferred to statement of total recognised gains and losses | - | - |
| Total current tax | 698 | 315 |

**Factors that may affect future tax charges:**

During the year, as a result of the changes in the UK main corporation tax rate to 26% that was substantively enacted on 29 March 2011 and that was effective from 1 April 2011, and to 24% that was substantively enacted on 5 July 2011 and that will be effective from 1 April 2012, the relevant deferred tax balances have been re-measured Further reductions to the UK corporation tax rate were announced in the March 2012 Budget The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 23% from 1 April 2013 and by a further 1% to 22% from 1 April 2014 The changes had not been substantively enacted at the balance sheet date and, therefore,

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 8 Tax on the profit on ordinary activities (continued)

are not recognised 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

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| **Equity – Ordinary** | | |
| Interim paid £0 0030 (2010 £0 0018) per £0 25 share | **379** | 229 |

## 10 Tangible fixed assets

| | **Short term leasehold improvements £'000** | **Motor vehicles, fixtures and fittings £'000** | **Total £'000** |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2011 | 673 | 1,208 | 1,881 |
| Additions | - | 40 | 40 |
| Disposals | - | (75) | (75) |
| **At 31 December 2011** | **673** | **1,173** | **1,846** |
| **Accumulated depreciation** | | | |
| At 1 January 2011 | 661 | 934 | 1,595 |
| Charge for the year | 5 | 123 | 128 |
| Disposals | - | (72) | (72) |
| **At 31 December 2011** | **666** | **985** | **1,651** |
| **Net book amount** | | | |
| **At 31 December 2011** | **7** | **188** | **195** |
| At 31 December 2010 | 12 | 274 | 286 |

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 11 Fixed asset investments

| Shares in group undertakings | **2011** | 2010 |
|---|---|---|
| | **£'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 2011 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 2011 was £nil (2010 £nil) Zimmer Trustees Limited was dormant throughout the whole year

The capital and reserves of Centerpulse (UK) Limited at 31 December 2011 was £4,347,000 (2010 £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

## 12 Debtors

| | **2011** | 2010 |
|---|---|---|
| | **£'000** | £'000 |
| Trade debtors | **9,932** | 9,629 |
| Amounts owed by group undertakings | **43,401** | 40,264 |
| Other debtors | **35** | 3,311 |
| Deferred tax (note 15) | **1,058** | 1,111 |
| Prepayments and accrued income | **542** | 557 |
| **Total** | **54,968** | 54,872 |
| **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** | **17,752** | 17,656 |

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 12 Debtors (continued)

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

In the prior year an amount of £2,605,000 was included within other debtors which related to the recovery of a payment made in relation to an overseas tax dispute A further amount of £687,000 was also included within other debtors which related to interest receivable on the overseas tax The total amount was recovered in full during the year

## 13 Creditors – Amounts falling due within one year

| | 2011<br>£'000 | 2010<br>£'000 |
|---|---|---|
| Trade creditors | 223 | 638 |
| Amounts due to group undertakings | 9,741 | 9,339 |
| Corporation tax payable | 110 | 287 |
| Other taxation and social security | 581 | 449 |
| Accruals | 2,925 | 2,282 |
| Other creditors | 2 | - |
| | 13,582 | 12,995 |

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

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 14 Provisions for liabilities and charges

| | Share Options – National Insurance £'000 | Onerous lease £'000 | Dilapidation £'000 | Total £'000 |
|---|---|---|---|---|
| 1 January 2011 | 130 | 32 | 199 | 361 |
| Credit to profit and loss | | (12) | (15) | (27) |
| Charge to profit and loss | 6 | | 15 | 21 |
| Utilised during the year | | (20) | (7) | (27) |
| **31 December 2011** | **136** | **-** | **192** | **328** |

**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**

The provisions for future lease rentals in the prior year represented the residual commitments in respect of the closed site in Swindon This lease ended in the year

**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 seven years

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 15 Deferred taxation

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Capital allowances in excess of depreciation | **245** | 322 |
| Other timing differences | **813** | 789 |
| Deferred tax asset excluding that relating to pension asset (note 12) | **1,058** | 1,111 |
| Deferred tax liability on pension asset (note 19) | **(682)** | (489) |
| **Total deferred tax asset** | **376** | 622 |
| | | |
| **1 January** | **1,111** | 1,116 |
| Deferred tax (charged)/credited to profit and loss account (note 8) | **(53)** | (5) |
| **31 December** | **1,058** | 1,111 |

| **Deferred tax liability relating to pension asset** | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **1 January** | **(489)** | (217) |
| Deferred tax charged to profit and loss account (note 8) | **(316)** | (363) |
| Deferred tax credited to the statement of total recognised gains and losses | **123** | 91 |
| **31 December** | **(682)** | (489) |

## 16 Called up share capital

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Authorised, allotted and fully paid** | | |
| 126,513,000 (2010 126,513,000) ordinary shares of 25p each | **31,628** | 31,628 |

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 17 Reserves

| | Share premium account £'000 | Profit and loss account £'000 | Other reserves £'000 |
|---|---|---|---|
| **At 1 January 2011** | 89 | 18,039 | 2,672 |
| Profit for the financial year | - | 2,672 | - |
| Dividends (note 9) | - | (379) | - |
| Actuarial loss on pension scheme (note 19) | - | (463) | - |
| Movement on deferred tax relating to pension scheme (note 15) | - | 123 | - |
| Share based payment services provided (note 21) | - | - | 564 |
| Share based payment recharge paid to ultimate parent | - | - | (25) |
| **At 31 December 2011** | **89** | **19,992** | **3,211** |

## 18 Reconciliation of movements in shareholders' funds

| | **2011 £'000** | 2010 £'000 |
|---|---|---|
| Profit for the financial year | **2,672** | 3,363 |
| Dividends (note 9) | **(379)** | (229) |
| Actuarial (loss) on pension scheme (note 19) | **(463)** | (324) |
| Movement on deferred tax relating to pension scheme | **123** | 91 |
| | **1,953** | 2,901 |
| Net increase in other reserves | **539** | 519 |
| Net addition to shareholders' funds | **2,492** | 3,420 |
| **Opening shareholders' funds** | **52,428** | 49,008 |
| **Closing shareholders' funds** | **54,920** | 52,428 |

# Notes to the financial statements for the year ended 31 December 2011 (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 £185,000 (2010 £198,000) £16,000 was outstanding at the year end (2010 £16,000)

**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 2011 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 (2010 £1,626,000)

Scheme assets are stated at their market value at 31 December 2011

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| **Valuation method:** | **Projected unit:** | Projected unit | Projected unit |
| Discount rate | **4.70%** | 5 30% | 5 70% |
| Inflation assumption | **3 20%** | 3 60% | 3 75% |
| Increases to deferred benefits during deferment | **3.20%** | 3 60% | 3 00% |
| Expected rate of future pension increases | **3.20%** | 3 60% | 3 00% |
| Rate of increase in salaries | **4 20%** | 4 95% | 5 10% |

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

| | **2011**<br>**£'000** | 2010<br>£'000 |
|---|---|---|
| Retiring at the end of the reporting period | | |
| Male | **22.80** | 22 7 |
| Female | **25.20** | 25 1 |
| Retiring 20 years after the end of the reporting period | | |
| Male | **24.60** | 24 5 |
| Female | **27.10** | 27 0 |

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 19 Pension costs (continued)

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

| | **As at 31 December 2011** | | As at 31 December 2010 | | As at 31 December 2009 | |
|---|---|---|---|---|---|---|
| | **Expected rate of return** | **Value £'000** | Expected rate of return | Value £'000 | Expected rate of return | Value £'000 |
| Equities | **4.30%** | **10,846** | 5 65% | 9,781 | 6 00% | 7,917 |
| Bonds | **3.70%** | **6,935** | 4 85% | 6,253 | 5 10% | 5,062 |
| Total market value of assets | | **17,781** | | 16,034 | | 12,979 |
| Present value of scheme liabilities | | **(15,053)** | | (14,220) | | (12,203) |
| Surplus in scheme | | **2,728** | | 1,814 | | 776 |
| Related deferred tax liability (note 15) | | **(682)** | | (489) | | (217) |
| Net pension surplus | | **2,046** | | 1,325 | | 559 |

| **Reconciliation of present value of scheme liabilities** | **2011 £'000** | 2010 £'000 |
|---|---|---|
| **1 January** | **14,220** | 12,203 |
| Current service cost | **379** | 332 |
| Interest cost | **759** | 702 |
| Insurance premiums | **1** | (5) |
| Contributions paid by members | **106** | 105 |
| Benefits paid | **(269)** | (198) |
| Actuarial (gain)/loss | **(143)** | 1,081 |
| **31 December** | **15,053** | 14,220 |

| **Reconciliation of present value of scheme assets** | **2011 £'000** | 2010 £'000 |
|---|---|---|
| **1 January** | **16,034** | 12,979 |
| Expected return on scheme assets | **889** | 770 |
| Actuarial (loss)/gains | **(606)** | 757 |
| Insurance premiums | **1** | (5) |
| Contributions paid by members | **106** | 105 |
| Benefits paid | **(269)** | (198) |
| Contributions paid by employer | **1,626** | 1,626 |
| **31 December** | **17,781** | 16,034 |

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 19 Pension costs (continued)

The proportion of the Zimmer Limited scheme's assets to liabilities was 118% (2010 113%)

| Analysis of the amount charged to operating profit: | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Current service cost | **379** | 332 |

| Analysis of amount credited to other finance income: | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Expected return on pension scheme assets | **889** | 770 |
| Interest on pension scheme liabilities | **(759)** | (702) |
| **Other finance income** | **130** | 68 |

| Analysis of amount recognised in statement of total recognised gains and losses | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Actual return less expected return on pension scheme assets | **(606)** | 757 |
| Changes in assumptions underlying the present value of the scheme liabilities | **143** | (1,081) |
| **Actuarial loss recognised in statement of total recognised gains and losses** | **(463)** | (324) |

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 19 Pension costs (continued)

| History of experience gains/(losses) | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Benefit obligation at end of year (£'000) | **15,053** | 14,220 | 12,203 | 9,375 | 10,124 |
| Fair value of plan assets at end of year (£'000) | **17,781** | 16,034 | 12,979 | 10,818 | 9,665 |
| Surplus/(deficit) (£'000) | **2,728** | 1,814 | 776 | 1,443 | (459) |
| Difference between the expected and actual return on scheme assets | | | | | |
| Amount (£'000) | **(606)** | 757 | 914 | (2,001) | (206) |
| Percentage of scheme assets | **3%** | 5% | 7% | (18%) | (2%) |
| Experience gain on scheme liabilities | | | | | |
| Amount (£'000) | **71** | - | 413 | - | - |
| Percentage of the present value of scheme liabilities | **0%** | 0% | 3% | 0% | 0% |
| Total amount recognised in statement of total recognised gains and losses | | | | | |
| Amount (£'000) | **(463)** | (324) | (1,221) | (235) | 488 |
| Percentage of the present value of scheme liabilities | **(3%)** | (2%) | (10%) | (3%) | 5% |

The Directors expect to make contributions of £1,626,000 in 2012

## 20 Financial commitments

At 31 December 2011 the company had annual commitments under non-cancellable operating leases expiring as follows

| | **Land and buildings** | | **Other** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Within one year | - | - | **1** | 83 |
| Within two to five years | - | 196 | **358** | 213 |
| After five years | **183** | - | - | - |
| | **183** | 196 | **359** | 296 |

# Notes to the financial statements for the year ended 31 December 2011 (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 2011 is shown below

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average Exercise Price $** | Number of options | Weighted average Exercise Price $ |
| Outstanding at start of the year | **251,383** | **67.76** | 240,857 | 67 51 |
| Granted | **24,510** | **60.01** | 30,170 | 58 02 |
| Cancelled | **(10,002)** | **51.51** | (11,369) | 60 60 |
| Exercised | **(8,631)** | **37.37** | (8,275) | 34 75 |
| Outstanding at end of the year | **257,260** | **68.03** | 251,383 | 67 76 |
| Exercisable at end of the year | **196,119** | **71.26** | 177,626 | 71 03 |

The weighted average fair value of options granted during the financial year was $449,000 (2010 $549,000)

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 2011 is shown below

| | **2011 Number of RSUs** | 2010 Number of RSUs |
|---|---|---|
| Outstanding at start of the year | **17,921** | 8,853 |
| Granted | **9,390** | 12,694 |
| Cancelled | **(3,697)** | (3,025) |
| Vested | **(2,656)** | (601) |
| Outstanding at end of the year | **20,958** | 17,921 |

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 21 Share-based payment (continued)

The weighted average fair value of RSUs granted during the year was $558,000 (2010 $733,000)

The total charge for the financial year relating to employee share based payment plans for which fair value accounting is being applied was £564,000 (2010 £638,000), all of which related to equity-settled share based payment transactions After deferred tax, the total charge was £541,000 (2010 £552,000)

The USD to GBP exchange rate at 31 December 2011 was $1 5664/£ (2010 $1 5405/£)

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 2011:**

| | | Options outstanding | | | | Options exercisable | |
|---|---|---|---|---|---|---|---|
| Range of exercise prices | Number of shares | Weighted average Remaining expected life (years) | Weighted average remaining contractual life (years) | Weighted average exercise price $ | Number of shares | Weighted average remaining contractual life (years) | Weighted average exercise price $ |
| $20 00 - $40 00 | 31,075 | 6.77 | 6 77 | 39 92 | 18,725 | 6 53 | 39 90 |
| $40 01 - $60 00 | 29,821 | 7 52 | 7.52 | 57 19 | 12,987 | 6 62 | 56 12 |
| $60 01 - $70 00 | 33,637 | 7 66 | 7 66 | 62 09 | 9,677 | 3 82 | 67 26 |
| $70 01 - $80 00 | 139,052 | 4 01 | 4 01 | 75 40 | 131,055 | 3 87 | 75 30 |
| $80 01 - $90 00 | 23,675 | 5 11 | 5 11 | 83 68 | 23,675 | 5 11 | 83 68 |

31 December 2010

| | | Options outstanding | | | | Options exercisable | |
|---|---|---|---|---|---|---|---|
| Range of exercise prices | Number of shares | Weighted average Remaining expected life (years) | Weighted average remaining contractual life (years) | Weighted average exercise price $ | Number of shares | 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 |

The weighted average share price during the financial year for options exercised over the year was $57 71 (2010 $51 65)

# Notes to the financial statements for the year ended 31 December 2011 (continued)

## 21 Share-based payment (continued)

For RSUs outstandıng at the end of the year weıghted average remaınıng contractual lıfe ıs as follows

| | 31 December 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| **Exercıse prıce** | **Number of shares** | **Weıghted average remaınıng expected lıfe (years)** | **Weighted average remaınıng contractual lıfe (years)** | Number of shares | Weıghted average remaınıng expected lıfe (years) | Weıghted average remaınıng contractual lıfe (years) |
| $0 00 | 20,958 | 9 89 | 9 89 | 17,921 | 8 88 | 8 88 |

Optıons were valued usıng the Black-Scholes optıon-prıcıng model No performance condıtıons were ıncluded ın the faır value calculatıons The faır value per optıons granted and the assumptıons used ın the calculatıon are as follows -

| | **2011** | 2010 |
|---|---|---|
| Vestıng perıod (years) | **4** | 4 |
| Expected volatılıty | **26.1%** | 26 1% |
| Optıon lıfe (years) | **10** | 10 |
| Expected lıfe (years) | **6.1** | 5 9 |
| Rısk free rate | **2.22** | 2 81 |
| Expected dıvıdend yıeld | **0%** | 0% |
| Faır value per optıon | **$18.31** | $18 20 |

Expected volatılıty ıs a statıstıcal measure of the amount by whıch a stock prıce ıs expected to fluctuate durıng a perıod For stock optıons granted ın 2011 and 2010 expected volatılıty was derıved from the ımplıed volatılıty of traded optıons that were actıvely traded around the grant date of the stock optıons

The expected term assumptıon has been derıved from hıstorıcal employee exercıse behavıour

The rısk free rate of return ıs determıned usıng the ımplıed yıeld currently avaılable for zero coupon US government bonds wıth a remaınıng term equal to the expected lıfe of the optıons

# Notes to the financial statements for the year ended 31 December 2011 (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