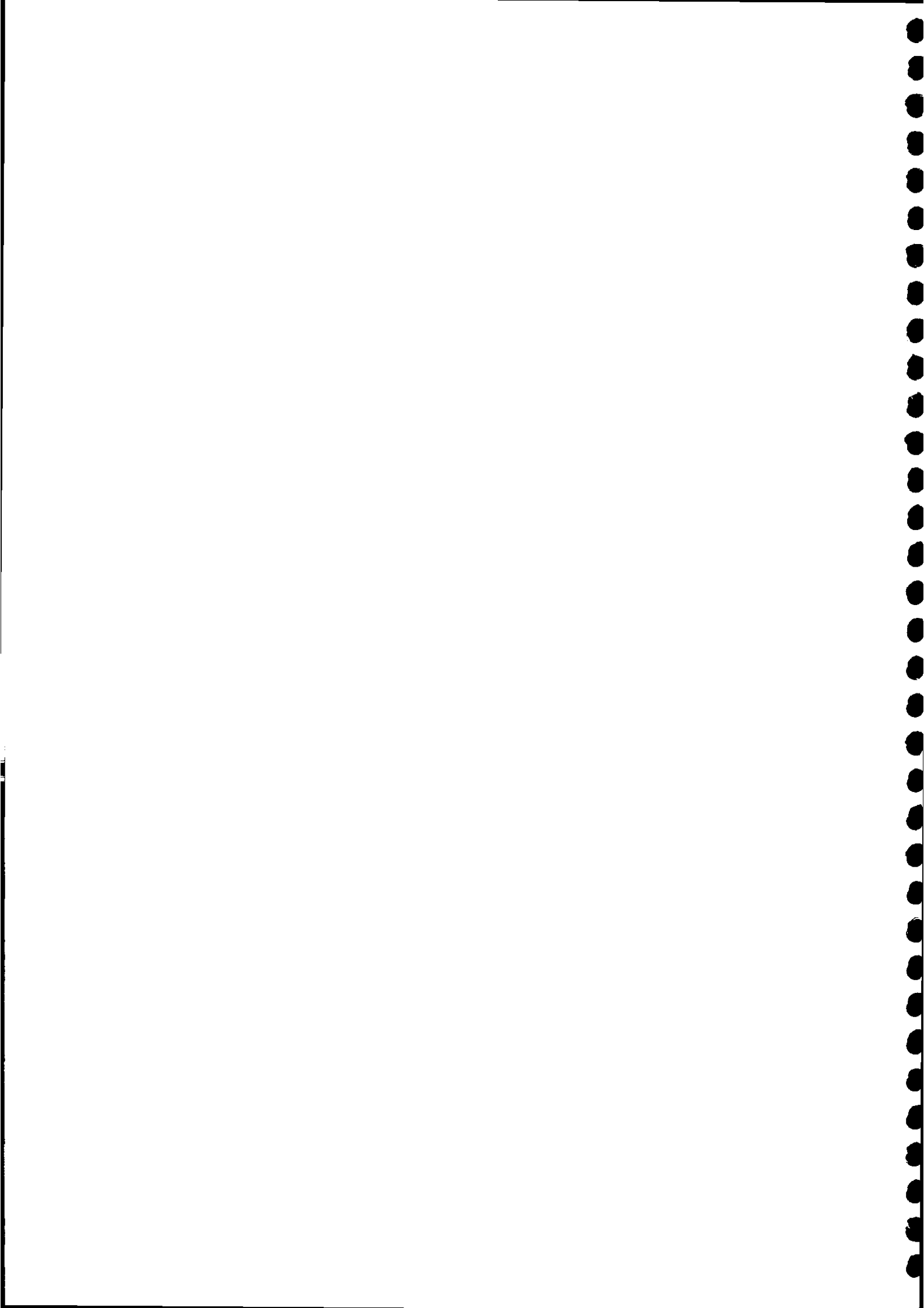


Zimmer Limited
(Registered Number 740767)

Directors' Report And Accounts

For The Year Ended 31 December 1999





Zimmer Limited

Directors' Report For The Year Ended 31 December 1999

The directors present their report and the audited accounts of the Company for the year ended 31 December 1999.

Principal Activities And Review Of The Business

The principal activity of the Company was the marketing of medical devices and other orthopaedic equipment.

The Company continues to trade through commission agents in Belgium, France, Germany, Holland and Spain.

Results And Dividends

The results for the year are shown in the profit and loss account on page 4. An interim dividend of £5,000,000 was paid on 23 July 1999. The directors do not recommend the payment of a final dividend. The retained loss for the year of £244,000 (1998 profit of £3,834,000) has been deducted from reserves.

Restructuring Of European Operations

In 1998 the Swindon manufacturing facility was closed down and branches in Norway, Sweden and Denmark were sold. The directors have made provisions for future lease obligations relating to that facility and other costs relating to this transaction.

Research And Development

Expenditure on research and development during the year was £521,000 (1998 £326,000).

Year 2000 And Euro Costs

The Company and its parent have evaluated the impact of the Year 2000 and the introduction of the Euro on the business. The Company has modified and developed its accounting systems and procedures to reduce the potential risks under its control. Due to the nature of the Year 2000 issue there can be no certainty that the Company's systems, or those of its suppliers, customers or any other third party, are or will be Year 2000 compliant. However, the immediate post balance sheet date period indicates that the Company has not been materially affected as a result of this issue.

Directors And Interests

The directors during the year and to the date of this report were:

C J Jefferis
D I Johnson
R P Matthews (resigned 31 January 1999)
G Restani

The directors had no interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Zimmer Limited

Directors' Report For The Year Ended 31 December 1999 (Continued)

Statement Of Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employee Policies

The Company is an equal opportunities employer and gives full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

Where people become disabled during the course of their employment, every effort is made to retain their services and to provide retraining, if necessary. All employees are eligible for consideration for appropriate training, career development and promotional opportunities; disabled people are not treated differently in this respect.

The Company policy is to consult with employees and their representatives and to provide them with information on the Company's progress and other matters affecting them. This policy is carried out through line management channels and through regular meetings with representatives of employees.

Charitable Donations

The Company has made charitable donations during the year of £1,391.

Auditors

A resolution to re-appoint PricewaterhouseCoopers as auditors of the Company will be proposed at the Annual General Meeting.

By Order of the Board



C J Moore
Company Secretary

30/5/ 2000

Auditors' Report to the Members of Zimmer Limited

We have audited the financial statements on pages 4 to 14.

Respective Responsibilities Of Directors And Auditors

The directors are responsible for preparing the Annual Report. As described on page 2, this includes the responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis Of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
Windsor

30 May 2000

Zimmer Limited

Profit And Loss Account For The Year Ended 31 December 1999

	<i>Note</i>	1999 £'000	1998 £'000
Turnover	<i>3</i>	53,043	68,161
Cost of sales		(21,246)	(31,600)
Gross profit		31,797	36,561
Distribution costs		(20,775)	(23,498)
Administrative expenses		(3,392)	(4,330)
Operating profit	<i>5</i>	7,630	8,733
Cost of a fundamental restructuring	<i>6</i>	(1,094)	(434)
Interest receivable and similar income		25	16
Interest payable and similar charges	<i>4</i>	(467)	(1,500)
Profit on ordinary activities before taxation		6,094	6,815
Tax on profit on ordinary activities	<i>7</i>	(1,338)	(2,981)
Profit on ordinary activities after taxation	<i>19</i>	4,756	3,834
Dividends	<i>10</i>	(5,000)	-
(Loss)/profit for the financial year transferred to/deducted from reserves		(244)	3,834

There are no recognised gains or losses for the year other than the loss for the year.

All results arise from continuing activities.

The notes on pages 6 to 14 form part of these accounts.

Zimmer Limited

Balance Sheet For The Year Ended 31 December 1999

	<i>Note</i>	1999 £'000	1998 £'000
Fixed assets			
Tangible assets	11	8,772	6,220
Current assets			
Stocks	12	7,770	7,861
Debtors	13	20,460	23,727
Cash at bank and in hand		99	746
		28,329	32,334
Creditors - amounts falling due within one year	14	(14,488)	(13,622)
Net current assets		13,841	18,712
Total assets less current liabilities		22,613	24,932
Creditors - amounts falling due after more than one year	15	(8,166)	(10,891)
Provision for liabilities and charges	16	(1,820)	(1,170)
Net assets		12,627	12,871
Capital and reserves			
Called up share capital	18	428	428
Share premium account	19	89	89
Profit and loss account	19	12,110	12,354
Total equity shareholders' funds	19	12,627	12,871

Approved By The Board On 30/5/2000
and signed on its behalf by



C J Jefferis
Director

The notes on pages 6 to 14 form part of these accounts

Zimmer Limited

Notes To The Accounts For The Year Ended 31 December 1999

1 Accounting Policy

(1) Basis Of Accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies which the directors have adopted within those standards are set out below.

(2) Turnover

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

(3) Research And Development

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

(4) Fixed Assets And Depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided to write off the carrying values of fixed assets over their estimated useful economic lives, on a straight line basis, as follows:

Short term leasehold improvements	10 years
Motor vehicles, fixtures and fittings	3 to 10 years
Instruments	3 to 5 years

(5) Stocks Of Finished Goods

Finished goods have been valued at the lower of cost and net realisable value.

(6) Leases

Operating lease rentals are charged to the profit and loss account as incurred.

(7) Foreign Currency Translation

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

(8) Deferred Taxation

Deferred taxation is provided on the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts, only where, in the opinion of the directors, it is expected that the liability will become payable within the foreseeable future.

(9) Pensions

The expected cost of pensions in respect of the Company's defined benefit schemes are charged to the profit and loss account so as to spread the cost of pensions over the service lives of the employees in the scheme. The pension cost is assessed in accordance with the advice of qualified actuaries.

Zimmer Limited

Notes To The Accounts For The Year Ended 31 December 1999 (Continued)

1 Accounting Policy (Continued)

(10) Deferred Charges

Deferred charges represent stocks which have been specifically produced for promotional purposes. These stocks are stated at the lower of cost and net realisable value. The promotional stocks are capitalised to instruments as and when they are included in an instrument kit and amortised over a three or five year period.

2 Cash Flow Statement

The Company has taken advantage of the exemption granted by Financial Reporting Standard No. 1 to wholly owned subsidiaries of a parent undertaking presenting a group cash flow statement whose accounts are publicly available. Accordingly no cash flow statement is presented.

3 Turnover

The geographical analysis of turnover by destination is as follows:

	1999 £'000	1998 £'000
United Kingdom	13,280	13,935
Rest of Europe	36,205	42,748
Rest of World	3,558	11,478
	<hr/> 53,043	<hr/> 68,161

The directors consider that the Company operates in a single class of business.

4 Interest Payable And Similar Charges

	1999 £'000	1998 £'000
Interest payable		
- on loans from group undertakings	438	1,498
- other	29	2
	<hr/> 467	<hr/> 1,500

Zimmer Limited

Notes To The Accounts For The Year Ended 31 December 1999 (Continued)

5 Operating Profit

Operating profit is stated after charging/(crediting):-	1999 £'000	1998 £'000
Depreciation		
- owned assets	3,172	3,052
- leased assets	-	75
Research and development expenditure	521	326
Auditors' remuneration		
- audit	35	39
- other services	38	36
Operating lease rentals		
- property	306	246
- equipment	220	230
Loss/(gain) on foreign currency movements	940	(773)

6 Cost Of Fundamental Restructuring

	1999 £'000	1998 £'000
Charge for the year	1,094	434

The charge for the year relates to the restructuring of European operations which includes the closure of the Swindon manufacturing facility in August 1998.

7 Tax On Profit On Ordinary Activities

	1999 £'000	1998 £'000
UK Corporation tax at 30% (1998: 31%)	2,057	2,054
Overseas tax	8	158
Deferred taxation (Note 17)	(299)	17
Adjustments in respect of prior year	(428)	752
	1,338	2,981

Zimmer Limited

Notes To The Accounts For The Year Ended 31 December 1999 (Continued)

8 Staff Numbers And Costs

The average number of persons employed by the Company (including directors) during the year was as follows:

	1999 Number	1998 Number
Production and Research and Development	3	43
Selling	47	48
Administration	18	20
	68	111

The aggregate payroll costs of these persons were as follows:

	1999 £'000	1998 £'000
Wages and salaries	2,357	3,685
Social security costs	211	297
Other pension costs	243	373
	2,811	4,355

9 Directors' Emoluments

	1999 £'000	1998 £'000
Aggregate emoluments	378	542

One director (1998: 2) is employed by the US parent undertaking. This director was remunerated by the parent company for his services which included certain responsibilities relating to Zimmer Limited.

The emoluments of the highest paid director were as follows:

	1999 £'000	1998 £'000
Emoluments (excluding pension contributions)	189	217

Zimmer Limited

Notes To The Accounts For The Year Ended 31 December 1999 (Continued)

10 Dividends

	1999 £'000	1998 £'000
Ordinary		
Interim paid (292 pence per share)	5,000	-

11 Tangible Fixed Assets

	Short term Leasehold Improvements £'000	Plant and Machinery £'000	Motor vehicles, Fixtures and Fittings £'000	Instruments £'000	Total £'000
Cost					
At 1 January 1999	-	15	492	11,985	12,492
Additions	746	-	415	4,592	5,753
Disposals	-	(15)	(263)	(42)	(320)
At 31 December 1999	746	-	644	16,535	17,925
Accumulated depreciation					
At 1 January 1999	-	15	353	5,904	6,272
Charge for the year	-	-	62	3,110	3,172
Disposals	-	(15)	(262)	(14)	(291)
At 31 December 1999	-	-	153	9,000	9,153
Net book value					
At 31 December 1999	746	-	491	7,535	8,772
At 31 December 1998	-	-	139	6,081	6,220

There were no assets held under finance leases in 1999 or 1998.

12 Stocks

	1999 £'000	1998 £'000
Finished goods and goods for resale	7,770	7,861
	7,770	7,861

Zimmer Limited

Notes To The Accounts For The Year Ended 31 December 1999 (Continued)

13 Debtors

	1999 £'000	1998 £'000
Trade debtors	11,719	12,739
Deferred charges	2,505	2,985
Amounts owed by other group undertakings	4,690	4,880
Prepayments and accrued income	46	43
Other debtors	932	2,811
Deferred tax (note 17)	568	269
	<hr/> 20,460	<hr/> 23,727

14 Creditors – Amounts Falling Due Within One Year

	1999 £'000	1998 £'000
Trade creditors	1,199	801
Amounts owed to other group undertakings	8,495	7,465
Corporation tax	1,455	2,054
Other creditors including taxation and social security	914	44
Accruals and deferred income	2,425	3,258
	<hr/> 14,488	<hr/> 13,622

Included within other creditors is £860,000 which relates to a factored debt outstanding at the year end. The balance carries an interest rate of MIBOR + 0.3% per annum and has no predetermined repayment dates.

15 Creditors – Amounts Falling Due After More Than One Year

	1999 £'000	1998 £'000
Amounts owed to other group undertakings	8,166	10,891

The amounts owed to other group undertakings carry an interest rate of LIBOR + 0.25% per annum and have no predetermined repayment dates.

Zimmer Limited

Notes To The Accounts For The Year Ended 31 December 1999 (Continued)

16 Provision For Liabilities And Charges

	<u>Future Lease Rentals</u> £'000	<u>Other</u> £'000	<u>Total</u> £'000
Brought forward at			
1 January 1999	840	330	1,170
Utilised in year	(296)	(148)	(444)
Charge in year (note 6)	1,046	48	1,094
At 31 December 1999	1,590	230	1,820

Provisions for future lease rentals represent the discounted amount of residual commitments in respect of the closed manufacturing site in Swindon and will be utilised over the remaining lease term of eleven years. Other provisions represent the best estimate of expenditure required to settle obligations in respect of the manufacturing site closure.

17 Deferred Taxation

	1999 £'000	1998 £'000
The movement on deferred taxation provided is as follows:		
As at 1 January	(269)	(286)
Charge/(release) for the year (Note 7)	(299)	17
As at 31 December	(568)	(269)

The deferred tax balance may be analysed as follows:

	<u>Full Potential Amount</u>		<u>Amount Provided/(Asset)</u>	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Accelerated capital allowances	(825)	(732)	-	-
Other short term timing differences	(8)	(22)	-	-
Other short term timing differences in respect of restructuring provision	(568)	(269)	(568)	(269)
	(1,401)	(1,023)	(568)	(269)

Zimmer Limited

Notes To The Accounts For The Year Ended 31 December 1999 (Continued)

18 Called Up Share Capital

	1999 £'000	1998 £'000
Authorised, issued and fully paid: 1,713,000 ordinary shares of 25p each	428	428

19 Reconciliation Of Movements In Shareholders' Funds

	Called Up Share capital £'000	Share Premium Account £'000	Profit and loss Account £'000	Shareholders' Funds 1999 £'000	Total Funds 1998 £'000
At 1 January	428	89	12,354	12,871	9,037
Profit for the year	-	-	4,756	4,756	3,834
Dividends	-	-	(5,000)	(5,000)	-
At 31 December	428	89	12,110	12,627	12,871

20 Pension Costs

The Company participates with other UK affiliated companies in defined benefit pension schemes operated by its immediate parent undertaking Bristol-Myers Squibb Holdings Limited. These schemes are financed through a separately administered fund and cover the majority of employees. The assets of the scheme are held separately from those of the Company. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees working lives with the Company. The levels of funding are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The most recent actuarial valuation dated 1 January 1996 showed that the total market value of the schemes assets was £72.1 million and that the actuarial value of these assets represented 111% of the benefits that had accrued to members after allowing for expected future increases in earnings. The contributions of the Company and employees for the year are £300,000 (1998 : £307,900).

The pension charge for the year was £243,300 (1998 : £373,300) after crediting £16,900 (1998 : £25,900) in respect of the amortisation of the above surplus. The SSAP 24 pension costs was calculated using an actuarial basis which valued the schemes' assets using an Adjusted Market approach and adopting the principal assumptions that investment returns would be 8.5% per annum, that salary increases would average 6.5% per annum and that present and future pensions would increase at the rate of 5% per annum in the long term.

Zimmer Limited

Notes To The Accounts For The Year Ended 31 December 1999 (Continued)

21 Capital Commitments

Capital commitments at 31 December 1999 for which no provisions had been made in these accounts, were as follows:

	1999 £'000	1998 £'000
Contracted for	-	27

22 Operating Lease Commitments

	Land and buildings		Other operating leases	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Annual commitments in respect of leases which expire:				
Within one year	23	-	49	49
Within two to five years	184	16	61	61
After five years	210	210	-	-
	417	226	110	110

23 Ultimate Parent Undertaking

The ultimate parent undertaking is Bristol-Myers Squibb Company, which is incorporated in the State of Delaware, United States of America. Consolidated accounts for Bristol-Myers Squibb Company can be obtained from The Secretary, Bristol-Myers Squibb Company, 345 Park Avenue, New York 10154, United States of America.

The immediate parent undertaking is Bristol-Myers Squibb Holdings Limited, which is registered in England. Consolidated accounts for the Bristol-Myers Squibb Holdings Limited Group can be obtained from The Secretary, Bristol-Myers Squibb Holdings Limited, Swakeleys House, Milton Road, Ickenham, Uxbridge, UB10 8NS.

Transactions with other companies within the Bristol-Myers group are not disclosed as the Company has taken advantage of the exemption available under Financial Reporting Standard No. 8 "Related Party Disclosures", as the consolidated accounts of Bristol-Myers Squibb Company Limited in which the Company is included are available at the address noted above.