

**Zimmer Limited**

**(Registered Number: 740767 )**

**Directors' Report and Accounts**

**For the Year Ended 31 December 1998**



# **Zimmer Limited**

## **Directors' Report For The Year Ended 31 December 1998**

The directors present their report and the audited accounts of the Company for the year ended 31 December 1998.

### **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. During the year the branches in Norway, Sweden and Denmark were closed down. Sales in Scandinavia are now made via a distributor.

The reduced levels of turnover during the year are attributable to the divestiture of the Linvatec business during 1997.

### **Results And Dividends**

The results for the year are shown in the profit and loss account on page 4. The directors do not recommend the payment of a final dividend. The retained profit for the year of £3,834,000 (1997: profit of £109,000) has been transferred to reserves.

### **Restructuring Of European Operations**

The Swindon manufacturing facility was closed down in 1998. The directors have made provision for the costs of moving to a new office facility.

### **Research And Development**

Expenditure on research and development during the year was £326,000 (1997: £600,000).

### **Year 2000 And Euro Costs**

The Company and its parent have established procedures to evaluate the impact of the Year 2000 and the introduction of the Euro. The Company is considering further developments of its *accounting systems and procedures, but this and any modifications costs are not, in the opinion of the directors, likely to be significant.*

### **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 1998 (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.

### Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, Price Waterhouse resigned in favour of the new firm, PricewaterhouseCoopers, and the directors appointed *PricewaterhouseCoopers to fill the casual vacancy created by the resignation.* 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

21 April 1999

## Auditors' Report to the Members of Zimmer Limited

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

### Respective Responsibilities Of Directors And Auditors

The directors are responsible for preparing the annual report including, as described on page 2, the financial statements. Our responsibilities, as independent auditors, are established 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 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*

PricewaterhouseCoopers  
Chartered Accountants  
and Registered Auditors  
Windsor

21 April 1999

# Zimmer Limited

## Profit And Loss Account For The Year Ended 31 December 1998

	<i>Note</i>	<b>1998 £'000</b>	<b>1997 £'000</b>
<b>Turnover</b>	<b>3</b>	<b>68,161</b>	<b>87,733</b>
Cost of sales		(31,600)	(43,548)
<b>Gross profit</b>		<b>36,561</b>	<b>44,185</b>
Distribution costs		(23,498)	(30,195)
Administrative expenses		(4,330)	(4,539)
Other operating income	<b>6</b>	-	3,913
<b>Operating profit</b>	<b>5</b>	<b>8,733</b>	<b>13,364</b>
Cost of a fundamental restructuring	<b>7</b>	(434)	(11,700)
Interest receivable and similar income		16	44
Interest payable and similar charges	<b>4</b>	(1,500)	(3,245)
<b>Profit/ (Loss) on ordinary activities before taxation</b>		<b>6,815</b>	<b>(1,537)</b>
Tax on profit/ (loss) on ordinary activities	<b>8</b>	(2,981)	1,646
<b>Profit on ordinary activities after taxation</b>	<b>19</b>	<b>3,834</b>	<b>109</b>
<b>Profit for the year transferred to reserves</b>		<b>3,834</b>	<b>109</b>

All results arise from continuing activities.

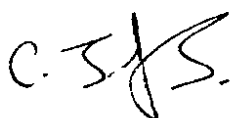
The notes on pages 7 to 16 form part of these accounts.

# Zimmer Limited

## Balance Sheet For The Year Ended 31 December 1998

	Note	1998 £'000	1997 £'000
<b>Fixed assets</b>			
Tangible assets	11	6,220	8,388
<b>Current assets</b>			
Stocks	12	7,861	15,744
Debtors	13	23,727	28,086
Cash at bank and in hand		746	1,825
		<u>32,334</u>	<u>45,655</u>
<b>Creditors - amounts falling due within one year</b>	14	(13,622)	(11,455)
<b>Net current assets</b>		<u>18,712</u>	<u>34,200</u>
<b>Total assets less current liabilities</b>		<b>24,932</b>	<b>42,588</b>
<b>Creditors - amounts falling due after more than one year</b>	15	(10,891)	(29,638)
<b>Provision for liabilities and charges</b>	16	(1,170)	(3,913)
<b>Net assets</b>		<u>12,871</u>	<u>9,037</u>
<b>Capital and reserves</b>			
Called up share capital	18	428	428
Share premium account	19	89	89
Profit and loss account	19	12,354	8,520
<b>Total equity shareholders' funds</b>	19	<u>12,871</u>	<u>9,037</u>

Approved By The Board On 21 April 1999  
and signed on its behalf by



C J Jefferis  
Director

The notes on pages 7 to 16 form part of these accounts.

## Zimmer Limited

### Statement Of Total Recognised Gains And Losses For The Year Ended 31 December 1998

	<i>Notes</i>	<b>1998 £'000</b>	<b>1997 £'000</b>
Profit for the financial year	19	3,834	109
Release of other reserve		-	313
<hr/>			
Total recognised gains and losses relating to the year		3,834	422

The notes on pages 7 to 16 form part of these accounts.

# Zimmer Limited

## Notes To The Accounts For The Year Ended 31 December 1998

### 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 invoiced value of net sales shipped 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:

Leasehold improvements	Life of lease
Plant and machinery – owned and leased	7 to 10 years
Motor vehicles and equipment	3 to 5 years
Instruments	3 to 5 years
Tooling	2 years from launch of product

#### (5) Stocks And Work In Progress

Stocks and work in progress have been valued at the lower of cost and net realisable value. Cost includes labour and overheads appropriate to the stage of production reached.

#### (6) Leases

Assets held under finance leases are capitalised and depreciated over their estimated useful lives. The related obligations under finance leases are included under creditors. Interest payable is charged to the profit and loss account in proportion to outstanding obligations.

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.



# Zimmer Limited

## Notes To The Accounts For The Year Ended 31 December 1998 (Continued)

### 1 Accounting Policy (Continued)

#### (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.

#### (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 year period.

### 2 Cash Flow Statement

The Company has taken advantage of the exemption granted by Financial Reporting Standard Number 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:

	1998 £'000	1997 £'000
United Kingdom	13,935	14,367
Rest of Europe	42,748	62,733
Rest of World	11,478	10,633
	<hr/> 68,161	<hr/> 87,733

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

# Zimmer Limited

## Notes To The Accounts For The Year Ended 31 December 1998 (Continued)

### 4 Interest Payable and Similar Charges

	1998 £'000	1997 £'000
Interest payable		
- other	2	6
- on loans from group undertakings	1,498	3,239
	<u>1,500</u>	<u>3,245</u>

### 5 Operating Profit

Operating profit is stated after charging (crediting):-	1998 £'000	1997 £'000
Depreciation - owned assets	3,052	3,896
- leased assets	75	82
Research and development expenditure	326	600
Auditors' remuneration		
- audit	39	48
- other services	36	20
Operating lease rentals		
- property	246	246
- equipment	230	329
(Gain)/loss on foreign currency movements	(773)	2,085

### 6 Other Income

	1998 £'000	1997 £'000
Other income	-	3,913

On 31 December 1997 the ultimate parent company sold its entire worldwide Linvatec business.

Other income in the prior year represents the profit earned by the Company on the sale of Linvatec stock.

### 7 Cost of Fundamental Restructuring

	1998 £'000	1997 £'000
Charge for the year	434	11,700

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

# Zimmer Limited

## Notes To The Accounts For The Year Ended 31 December 1998 (Continued)

### 8 Tax On Profit On Ordinary Activities

	1998 £'000	1997 £'000
UK Corporation tax at 31% (1997: 31.5%)	2,054	-
Overseas tax	158	176
Deferred taxation (Note 17)	17	(163)
Prior year adjustments	752	(1,659)
	<hr/> 2,981	<hr/> (1,646)

### 9 Staff Numbers And Costs

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

	1998 Number	1997 Number
Production	43	92
Selling	48	58
Administration	20	38
	<hr/> 111	<hr/> 188

The aggregate payroll costs of these persons were as follows:

	1998 £'000	1997 £'000
Wages and salaries	3,685	4,600
Social security costs	297	363
Other pension costs	411	337
	<hr/> 4,393	<hr/> 5,300

# Zimmer Limited

## Notes To The Accounts For The Year Ended 31 December 1998 (Continued)

### 10 Directors' Emoluments

	1998 £'000	1997 £'000
Aggregate emoluments	542	175

Two directors (1997: 4) are employed by the US parent undertaking. These directors were remunerated by the parent company for their services which included certain responsibilities relating to Zimmer Limited.

The emoluments of the highest paid director were as follows:

	1998 £'000	1997 £'000
Emoluments (excluding pension contributions)	217	75

### 11 Tangible Fixed Assets

	Short Leasehold <u>Improvements</u> £'000	Plant and <u>Machinery</u> £'000	Motor Vehicles and <u>Equipment</u> £'000	<u>Instruments</u> £'000	<u>Tooling</u> £'000	<u>Total</u> £'000
<b>Cost</b>						
At 1 January 1998	244	2,607	1,747	10,508	151	15,257
Additions	-	-	58	2,227	-	2,285
Disposals	(244)	(2,592)	(1,313)	(750)	(151)	(5,050)
At 31 December 1998	-	15	492	11,985	-	12,492
<b>Accumulated depreciation</b>						
At 1 January 1998	125	1,980	1,067	3,598	99	6,869
Charge for the year	12	236	196	2,636	47	3,127
Disposals	(137)	(2,201)	(910)	(330)	(146)	(3,724)
At 31 December 1998	-	15	353	5,904	-	6,272
<b>Net book value</b>						
At 31 December 1998	-	-	139	6,081	-	6,220
At 31 December 1997	119	627	680	6,910	52	8,388

# Zimmer Limited

## Notes To The Accounts For The Year Ended 31 December 1998 (Continued)

### 11 Tangible Fixed Assets (Continued)

The net book amount of assets held under finance leases included in plant and machinery above is £nil (1997: £164,736).

### 12 Stocks

	1998 £'000	1997 £'000
Raw materials	-	643
Work in progress	-	236
Finished goods and goods for resale	7,861	14,865
	7,861	15,744

### 13 Debtors

	1998 £'000	1997 £'000
Trade debtors	12,739	16,714
Deferred charges	2,985	2,599
Amounts owed by other group undertakings	4,880	6,303
Prepayments and accrued income	43	329
Other debtors	2,811	1,855
Deferred tax	269	286
	23,727	28,086

### 14 Creditors – Amounts Falling Due Within One Year

	1998 £'000	1997 £'000
Trade creditors	801	2,563
Amounts owed to other group undertakings	7,465	6,571
Corporation tax	2,054	-
Taxation and social security	44	21
Accruals and deferred income	3,258	2,217
Obligations under finance leases	-	83
	13,622	11,455

# Zimmer Limited

## Notes To The Accounts For The Year Ended 31 December 1998 (Continued)

### 15 Creditors – Amounts Falling Due After More Than One Year

	1998 £'000	1997 £'000
Obligations under finance leases due within two to five years	-	82
Amounts owed to other group undertakings	10,891	29,556
	10,891	29,638

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

### 16 Provision For Liabilities and Charges

	<u>Redundancy</u> £'000	<u>Fixed Assets</u> £'000	<u>Future Lease Rentals</u> £'000	<u>Other</u> £'000	<u>Total</u> £'000
Brought forward at 1 January 1998	2,041	992	630	250	3,913
Utilised in year	(2,360)	(499)	-	(318)	(3,177)
Charge/(release) in year	319	(493)	210	398	434
At 31 December 1998	-	-	840	330	1,170

### 17 Deferred Taxation

	1998 £'000	1997 £'000
The movement on deferred taxation provided is as follows:		
As at 1 January	(286)	(123)
Change/(release) for the year (Note 8)	17	(163)
As at 31 December	(269)	(286)

# Zimmer Limited

## Notes To The Accounts For The Year Ended 31 December 1998 (Continued)

### 17 Deferred Taxation (Continued)

The deferred tax balance may be analysed as follows:

	Full Potential Amount		Amount Provided/(Asset)	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Accelerated capital allowances	(732)	(690)	-	-
Other short term timing differences	(22)	(21)	-	-
Other short term timing differences in respect of restructuring provision	(269)	(286)	(269)	(286)
	(1,023)	(997)	(269)	(286)

### 18 Called Up Share Capital

	1998	1997
	£'000	£'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 1998 £'000	Total Funds 1997 £'000
At 1 January	428	89	8,520	9,037	8,928
Profit for the year	-	-	3,834	3,834	109
At 31 December	428	89	12,354	12,871	9,037

# Zimmer Limited

## Notes To The Accounts For The Year Ended 31 December 1998 (Continued)

### 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 £307,900 (1997 : £400,100).

The pension charge for the year was £411,000 (1997 : £337,000) after crediting £25,900 (1997 : £39,500) 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.

### 21 Capital Commitments

Capital commitments at 31 December 1998 for which no provisions had been made in these accounts, were as follows:

	1998 £'000	1997 £'000
Contracted for	27	-

### 22 Operating Lease Commitments

	Land and buildings		Other operating leases	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Annual commitments in respect of leases which expire:				
Within one year	-	20	49	45
Between one and five years	16	16	61	153
Beyond five years	210	210	-	-
	226	246	110	198



## Zimmer Limited

### Notes To The Accounts For The Year Ended 31 December 1998 (Continued)

#### 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.